Real Estate, Hospitality, and Construction

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The 2006 U.S. Lodging Report

Introduction

Dear Colleague,

We are pleased to present the 2006 edition of the Ernst & Young LLP U.S. Lodging Report.

Our United States Lodging Report offers our assessment of the direction of the U.S. lodging industry, including our thoughts on key lodging industry trends and segment performance, as well as our detailed outlook for major metropolitan markets. Additional copies of this report are available through our local offices or on our Web site http://www.ey.com/us/realestate.

I would like to thank the Hospitality Services professionals who contributed significant time and effort in preparing the 2006 U.S. Lodging Report, including Troy Jones and Rebecca Goldberg.

Ernst & Young's Hospitality Services professionals provide developers, lenders, owners, and operators with an array of advisory services each year. Please feel free to contact me or any of the professionals mentioned at the end of this report if we may be of service.

Sincerely,

Michael Fishbin
National Director
Hospitality Services
Ernst & Young LLP Transaction Advisory Services

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top 10 thoughts

TOP 10 THOUGHTS

Capital Market Activity – Asset Class of Choice, Appetite for Hotels Remains High

Favorable lodging industry fundamentals, a low interest rate environment, and attractive pricing among the publicly traded lodging stocks combined to create another exceptional year for the capital markets. While the year 2004 was characterized by increased IPOs, secondary offerings, and a considerable amount of mergers and acquisitions, activity in 2005 brought aggressive share buy-back programs among the large publicly traded companies and several significant mergers and acquisitions, especially among privately held companies. Approximately $23 billion of M&A activity took place in 2005.

More than $100 billion was raised by private equity funds during the first three quarters of 2005, a record-breaking year for the industry. The availability of capital and the growing interest among private equity firms in the lodging sector contributed to a considerable number of public-to-private transactions. Blackstone continued its foray into lodging with its $3.2 billion acquisition of Wyndham during the first half of 2005 and its subsequent $3.4 billion acquisition of LaQuinta. Colony Capital purchased the Singapore-based Raffles Holdings Limited for approximately $1.0 billion and made a $1.3 billion investment in Accor Hotels.

In all the transaction activity, there has been a shifting of business models within some of the large brand-hotel companies. Starwood Hotels & Resorts and Host Marriott, the largest publicly traded lodging REIT, announced a $4.0 billion transaction for 38 hotels, thereby significantly reducing Starwood's exposure to the underlying real estate, since the assets will keep their brand affiliations and will continue to be managed by Starwood. Hilton Hotels recently announced an agreement to acquire the lodging assets of the UK-based Hilton Group PLC for approximately $5.7 billion.

Given that the outlook for the lodging industry remains positive and profits among this asset class are anticipated to remain strong, capital activity should continue for the next several years. While interest rates may increase in the near term and there may be fewer lodging targets available at attractive prices, the outlook for the equity and fixed income markets should provide support for continued M&A lodging sector activity.

International Activity – Going Global

During 2005, a number of major changes and shifts occurred in the global hospitality market as foreign markets continued to expand. The lodging markets in India, China, and UAE experienced considerable growth with continued plans for steady development in the future.

According to the Organization of Asia-Pacific New Agencies, Dubai is anticipated to increase its lodging supply by 18,200 to 20,000 rooms by 2010, an increase of approximately 100%. There are concerns of oversupply; however, given the historical growth in demand and the increased public spending on tourism in the Emirate, the market is expected to absorb the supply additions.

China has continued to maintain a strong growth in the hospitality market. *Asia Pulse* indicated that during the first eight months of 2005 Chinese lodging markets experienced an average RevPAR growth of 14.3%. Furthermore, commercial markets such as Beijing and Hong Kong reported growth in excess of 20%, and despite the rapid growth in lodging supply, Shanghai increased by 17%. Such high growth rates are estimated to continue as international visitation continues to the region and with the Summer Olympics in 2008.

With the Indian lodging market experiencing a RevPAR increase of 31.3% from 2003 to 2004, and a 26.2% increase from January 2005 to August 2005, India is not only a growing hospitality market but profitable as well. Luxury and Upscale hotels are operating at 90% occupancy levels versus 70% last year along with room rates for many hotels in Mumbai, Delhi, Banglore, Chennai, and Hyderabad reaching all-time highs the winter season of 2005.

With significant global growth opportunities, Marriott International is targeting 13% of its 2006 to 2008 additions in Europe, Middle East and Africa and 9% in the Asia-Pacific region. Similarly, Four Seasons plans to open 24 additional properties in 10 additional countries. In addition, on a much larger scale, InterContinental Hotel Group plans to open 125 hotels in China by 2008. Hilton International continues its global reach with plans to add another 19 hotels by the end of 2006 and another 23 hotels by the end of 2007. Starwood's acquisition of the London-based Le Meridien global hotel group increased its portfolio and global reach with more that 130 luxury and upscale hotels in 56 countries worldwide.

Lodging Fundamentals – Good Times Continue to Roll

Lodging fundamentals are anticipated to exhibit strong performance for year-end 2005 and into 2006 due to anticipated increases in ADR in every major market versus 2004. Significant increases in ADR, which increased 5.2% according to Smith Travel Research year-to-date through November 2005 versus the same period in 2004, have been driven primarily by the return of the corporate traveler due to improving economic conditions. Additionally, ADR has increased due to limited supply growth, and even the reduction of lodging supply during the past year in some major markets. Lodging supply increased an estimated 1.3% in 2003 and 1% in 2004 nationwide, and new lodging supply growth is anticipated to be less than 1% in 2005 due to numerous notable hotels exiting the lodging market or undergoing conversion into residential units. However, with the recovery in lodging demand taking hold in 2004, *Lodging Econometrics* anticipates an estimated 88,711 hotel rooms to open in 2006 and lodging supply is anticipated to increase by approximately 100,000 guestrooms in 2007, representing the most significant number of new openings since 2001. However, as construction costs have increased, and are anticipated to further increase an estimated 10% – 20% in the short term due to the impact from recent major hurricanes, many of these projects may not materialize. Additionally, though lodging supply is showing signs of growth at an increasing rate, overall supply growth is below normal levels at this point in the cycle.

With RevPAR for the United States exhibiting an increase of 8.2% year-to-date through November versus the same period last year, positive hotel operating performance is anticipated to continue for the foreseeable future. According to a recent report by Torto Wheaton Research, the lodging sector is anticipated to offer investors the greatest return in the real estate sector in 2006, with unleveraged average annual returns for hotels anticipated to be approximately 12.1% over the next 10 years. Real estate investment alternatives are anticipated to exhibit single digit returns, ranging from approximately 5% – 8%, with office properties the next highest at approximately 7.8%.

As a result, both REIT and C-Corp lodging stocks have shown continued signs of strength, with lodging REIT returns demonstrating an increase of approximately 7.7% year-to-date through the beginning of December versus year-end 2004, according to the National Association of Real Estate Investment Trusts. Additionally, a majority of the publicly traded lodging companies outperformed the S&P 500 index, which experienced an approximately 3.0% increase during the year, and large-cap hotel owners experienced an average stock price performance of approximately 16.5% during the year. The financial outlook for the hotel industry is anticipated to remain favorable into 2006 with demand exceeding supply growth.

Private Residence and Destination Clubs – The Cross-Pollination of Lodging Segments to Produce Lodging Hybrids

With approximately 1,000 baby-boomers turning 60 everyday, the demand for second and vacation homes is anticipated to remain strong for the next several years. For baby-boomers who enjoy traveling and seek to minimize the hassle of second-home maintenance, hybrid lodging developments (e.g., condominium-hotels, destination clubs, and fractionals) are increasingly meeting this need. Private Residence Clubs (PRCs or fractionals), condominium-hotels and destination clubs (DCs) are being marketed as offering all the amenities and services of traditional luxury resorts and having the appeal of real estate ownership. PRCs and DCs go beyond traditional fractional ownership as they offer vacation "credits" that can be utilized at various luxury private homes and estates, yachts, and condominiums around the world.

PRCs and DCs are being developed throughout the world in mixed-use resort developments, traditional vacation home communities, and unique real estate settings. PRCs and DCs have been used interchangeably by several developers, analysts, and travel writers so that it is difficult to define them separately. Conceptually, PRCs and DCs are no different than other fractional interest programs, including timeshares. However, PRCs and DCs offer a level of quality in facilities and services that are aligned with their six- or seven-figure membership fees. It is possible to separate PRCs and DCs based upon a club's equity component. Equity PRCs and DCs, similar to fractionals, transfer a real estate deed for a fraction of the assets with each new club member. Non-equity clubs, similar to country or golf clubs, provide no deed to assets but usage rights to assets included in the club's portfolio. Both models may offer refunds on initial membership fees in the case of a member terminating their membership.

With the competitive landscape anticipated to increase to over 30 PRCs and DCs in 2006, PRCs and DCs are beginning to segment themselves. Current segments include those that are region-focused and those that are theme-focused, such as for golf, fishing, boating, or wine enthusiasts. PRCs and DCs that focus on a specific region or theme tend to provide their members with additional amenities and benefits that focus on the theme of the PRC or DC and are not offered by more traditional clubs. As the baby-boomer generation continues to spend its dollars on travel, additional niche markets may develop, thereby fueling the continued growth of PRCs and DCs.

Will the popularity PRCs, DCs, and other hybrids continue? Given the powerful baby-boomer demographics, it is certain that PRCs, as well as DCs, and other lodging hybrids will continue to receive interest from both consumers and real estate developers. Nevertheless, untested issues, including the resale value of individual PRC credits and DC units and the lack of secondary markets for hybrids (e.g., condominium-hotels and fractionals) may reduce the attractiveness of hybridized lodging segments.

Condominium-Hotels – Complex Nature Equals Risky Business

Condominium-hotels continue to be popular in hot real estate markets such as Miami and Hawaii and have begun undergoing rapid development in new markets, such as Las Vegas. This trend continues to address the increasing number of individuals (especially baby-boomers) interested in owning vacation real estate. Due to tight capital availability for stand-alone hotel developments in the past several years and the low interest rate environment, such developments offer an alternative financing structure and offer the potential to minimize financing risk for the developer (as developers are basically outsourcing their debt load to individual unit owners).

However, underlying this construction boom are many risk issues for those involved in condominium-hotel developments. Securities laws, particularly concerning liability if a development is deemed to have been sold as a security (and not properly registered), remain the primary legal concern. Most developers seek to avoid registration due to the time required, restrictions on advertising, broker requirements, and the use of deposits. This comes at the price, however, of being unable to mandate participation in a rental program, inability to pool income and expense, and the inability to provide buyers with income estimates, among others. After this initial hurdle comes the risk of buyer lawsuits due to unmet expectations from those who had an inflated view of the units' rental potential. How individual owners react to the realities of the hotel business (ramp-up to stabilization, seasonality, ADR versus Rack Rates, frequent renovation, etc.) remains to be seen. Additional issues include balancing operating risk, determining which party has control over the property infrastructure and shared facilities, and properly crafting all the complex agreements to work together. The critical nature of all this complexity being properly thought through may not become apparent until years after a development is analyzed and sold to buyers.

Of most importance is that the development needs to make market and economic sense as a hotel before ever being considered as a condominium-hotel. Subsequently, evaluating the economics of a condominium-hotel development beyond unit-pricing, such as the structuring of association fees, rental program fees, and fair revenue and expense allocations, remain key issues for this segment. With so many potential "land mines" surrounding the condominium-hotel segment, seeking sound legal and advisory guidance and having adequate preparation, documentation, and disclosure are absolutely necessary.

The Rise of the Lifestyle Brand – A Hotel for Every Lifestyle and Budget

Several new brands designed to cater to the lifestyle preferences of various traveler segments emerged in 2005. A trend that began in the late 1990s in the full-service upper-upscale and luxury segments, has found its way down to the upscale and limited-service midscale segments, providing style and comfort at a more affordable rate.

These new lodging brands have moved away from the approach taken by the traditional lodging "mega-brands" and instead aim to transcend the product-centered customer relationship to develop an emotional and long-term bond with travelers. The new lodging "lifestyle brand" takes a similar approach to that adopted by successful retail brands, focusing not only on guests' basic product needs and preferences, but also on creating a unique lodging experience that ties into guests' way of life, self-image, and interests, and delivers self-expressive benefits. These new lifestyle brands resonate with people who expect to live increasingly stylish lives and are less interested in settling for the old-fashioned cookie-cutter lodging product. These consumers are increasingly seeking a lodging product that resembles the look, feel, and comfort of their own homes.

One of these new mid-priced lifestyle lodging brands is InterContinental Hotels Group's Hotel Indigo, which opened its first hotel in November 2004 and is anticipated to roll out a total of four hotels by the end of 2005. This new lifestyle brand was designed to address the desires of style-conscious guests who are seeking experience and quality over pure functionality when traveling. It targets aspiring consumers who are seeking to "trade up" to a more stylish lodging product, while still seeking value.

Another prominent example of a new mid-priced lodging brand is Starwood Hotels & Resorts' new "aloft" brand. This brand was designed to provide increased style, comfort, functionality, and energy at affordable rates. The first aloft hotels are anticipated to break ground early 2006 and open in early 2007. Starwood is planning to roll out 500 aloft hotels by 2012.

This trend is anticipated to continue into 2006, with expansion activity of lifestyle brands gaining momentum. In 2006 the lodging industry is likely to witness the continued growth of multiple lifestyle brands, from Starwood's and InterContinental's chain-oriented brands, through smaller boutique brands such as Kimpton, Joie de Vivre, and Morgans to niche Haute Couture lifestyle brands, launched in cooperation with international fashion brands such as Armani, Versace, Bulgari, and most recently Missoni.

Tourism – Creating a Buzz About Town

Among the many factors that affect tourism in the United States, primary research indicates that the most influential are the overall condition of the national economy, gasoline prices, security concerns, consolidation among the meetings and events industries, and U.S. government-imposed travel restrictions/requirements. According to the Travel Industry Association of America (TIA), travel expenditures for both domestic and international visitors exceeded $600 billion for the first time in 2004. For 2005, travel expenditures were estimated to increase 5.6% to more than $633 billion. Despite record-high gasoline prices and a devastating hurricane season, positive growth was driven by the rebounding economy and its impact on corporate, group, and leisure travel.

As the travel and tourism industries significantly contribute to the overall health of local economies, by creating jobs and generating market awareness, tourism authorities continue to take a proactive stance toward increasing their share of the lucrative tourism and meetings markets. As a result, competition among locations remains fierce. In addition to the top-of-mind city destinations competing for tourism dollars (e.g., Orlando, Chicago, Las Vegas, and New York), more and more secondary and tertiary cities across the United States have developed strategies to effectively compete in attracting visitation and capturing market share. Intermediate term plans (0 – 5 years) tend to focus more on local community developments including museums and parks, while long term plans (more than 5 years) focus more on improving visitation directly, with an embedded benefit to the local community, including the development of convention centers and headquarter hotels.

Still, the development of the necessary infrastructure is only part of the broader tourism picture as meeting and event planners increasingly place importance on the perceived value and overall experience of the local market. In order to successfully compete, local markets have found that they need to offer quality accommodations and amenities, a diverse array of attractions, and easy access to and around the destination. The combination of these is crucial to the development of a unique and well defined brand image which will allow for increased consumer awareness and create a buzz about town.

Hurricane Activity – Mother Nature Not So Nurturing

The hurricanes that made landfall in the United States during 2005 have been by far the most costly natural catastrophes in our country's history. The wrath of Hurricanes Katrina, Rita and Wilma left no industry untouched and caused extraordinary industrial and commercial property damage, which will likely result in an unprecedented number of insurance claims and lawsuits – estimates indicate insured losses exceed $60 billion. Oil rigs and refineries were initially hit hard, as Hurricane Katrina reportedly affected production at more than 50 oil and natural-gas platforms in the Gulf of Mexico. This fueled an immediate increase in gasoline and airfare costs, due to higher jet fuel prices. While the sticker shock at the pump has subsided (for the most part) as gas prices have declined, the impact of the active hurricane season on tourism in the Gulf Coast, especially in New Orleans, has been far-reaching, beyond the physical damage to local hotels, amenities, and tourist attractions.

Indeed, the displaced convention and group market in New Orleans has subsequently sent waves of disruption throughout the country. With the New Orleans Convention Center closed for renovations from September 1, 2005 through March 31, 2006, thirty-three convention meetings and tradeshows have been displaced, representing approximately $1.3 billion in lost business for the area. Despite the risk of future hurricanes and the violent images shown by the media in the wake of the storm, convention and association groups have indicated that they wish to return to New Orleans; however, the city does not want to book convention business until the city is fully ready to receive it. In an effort to redirect the convention groups previously scheduled in New Orleans, the Convention and Visitors Bureau is working with other major convention markets in the country to swap near-term meetings and conventions with dates in the intermediate future. Indeed, the Dallas Convention and Visitors Bureau is reportedly working with as many as a dozen groups that have meetings on the books in both cities, effectively moving forward the Dallas business and rebooking New Orleans to a later date.

Similar to the willingness to return to New Orleans for meetings, South Florida tourism did not see a drop off in demand in 2005 as some expected as a result of an active hurricane season in 2004. Interestingly, the region experienced one of the strongest years ever. Despite the more active hurricane cycle we are in, key tourism destinations like New Orleans and South Florida continue to be high on the list for vacation, meetings, and quick get-away trips. Additional contingency planning will be required, however, during the summer months.

Sarbanes-Oxley and Section 404 – The Next Chapter

Chief Financial Officers continue to experience the challenges of a tightening regulatory environment. As 2004 was the first year of Sarbanes-Oxley (SOX) and Section 404 implementation, public, SEC-registrants committed significant resources and dollars to understanding processes and ensuring compliance. As a result, finance functions and the role of internal audit have evolved and continue to evolve, as efforts continue to focus on understanding and evaluating controls for the purpose of improving the reliability of financial reporting and corporate disclosures. The first year implementation of SOX and 404 in particular has served to improve investor confidence. The current debate surrounds the question, “At what cost ?” There is general consensus that both internal and external costs of implementation were far greater than anticipated. The challenge for companies in 2005, 2006, and beyond, is to build a 404 assessment and compliance process that is sustainable and cost efficient. Although SOX governs only those companies registered with the Securities and Exchange Commission, many believe the review and enhancements that have surfaced will promote financial reporting best practices for all companies. Many companies continue to struggle with the issue of finding sufficient resources to meet the current and ongoing challenges posed by SOX and 404.

Hotel Capitalization Rates – The Low-Down on Compression

As stocks struggle and the bond market begins to lose appeal in the face of rising interest rates, major equity and debt participants, in addition to newer entrants such as high-net-worth syndicates, private REIT investors, 1031 exchange buyers, and international investors, have begun to increase the supply of capital for real estate.

Often viewed as the riskiest real estate class, hotels have begun to close the cap-rate gap between themselves and other classes such as office and industrial. Some attribute the recent cap-rate spread reduction to a combination of factors, including the current softening of other real estate classes' fundamentals, the tempered supply growth and improving demand outlook for hotels, and the increased transparency of hotel industry performance data and analysis.

As a result of the cap-rate compression, hotel cap rates have reached historic, single-digit lows as buyers are attracted to the positive forward-looking fundamentals and the inability to find alternative placements for capital with such yields. Rates for top-tier, upscale, and major market properties are currently in the 7% – 8% range (in some instances even lower) while mid-tier hotels are just under 10%.

Where are cap rates headed? Many investors believe that the ramp-up of the Fed rate will have a lesser impact on hotel values than other forms of real estate due to the protections lodging assets afford by altering rents daily. With improving lodging fundamentals, coupled with the influx of new lenders (CMBS hotel issuance doubled during the first nine months of 2005 to approximately $13.7 billion) and capital investors chasing the limited amount of deals available, the trend of hotel cap-rate compression is anticipated to continue, albeit at a slower pace.

industry overview

INDUSTRY OVERVIEW

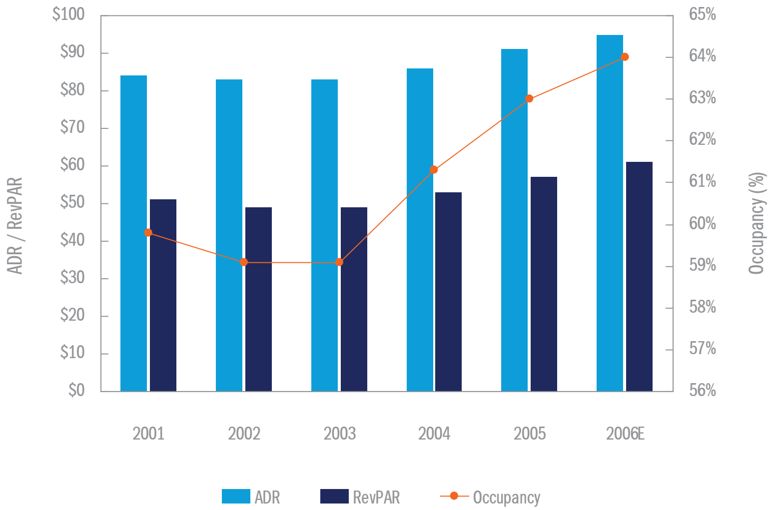
In 2005, the lodging industry continued its path of improvement with both occupancy and ADR levels increasing over 2004 buoyed by overall economic growth, positive momentum among corporate profits and business travel, improving trends among international travelers, and continued strength among the leisure segment. Supply growth continues to remain near historically low levels, at less than 1% in 2005, with minimal growth anticipated for the next several years as construction costs are on the rise and numerous notable hotels are planning to exit the lodging market or undergo conversion into residential units. Barring any unforeseen disruption in demand trends, the lodging industry is poised for continued improvement for the next 24 – 30 months.

The U.S. lodging market experienced an increase in both occupancy and ADR in 2005, resulting in an estimated RevPAR growth of 8.0%. Occupancy levels gained an estimated 1.7 percentage points to 63.0%, which is in line with 1999 levels. With improving demand trends, and minimal new supply growth, hotel operators have enjoyed a position of pricing power as ADR increased an estimated 5.1% to $91 in 2005. A RevPAR of $57 for 2005 represents a year-over-year increase of 8.0%.

In 2006, it is estimated that higher room rates will continue to drive performance and account for 75% of the total RevPAR growth this year. ADR is anticipated to increase 5.0% in 2006, bringing ADR levels to $95. Occupancy is anticipated to increase by 1.0 percentage point to 64.0%, resulting in an overall RevPAR of $61, which represents year-over-year growth of 6.7% compared with 2005.

Lodging Market Occupancy, ADR, RevPAR Performance

UNITED STATES



Source: Smith Travel Research

Lodging Market Change in Monthly Occupancy, ADR, RevPAR Performance

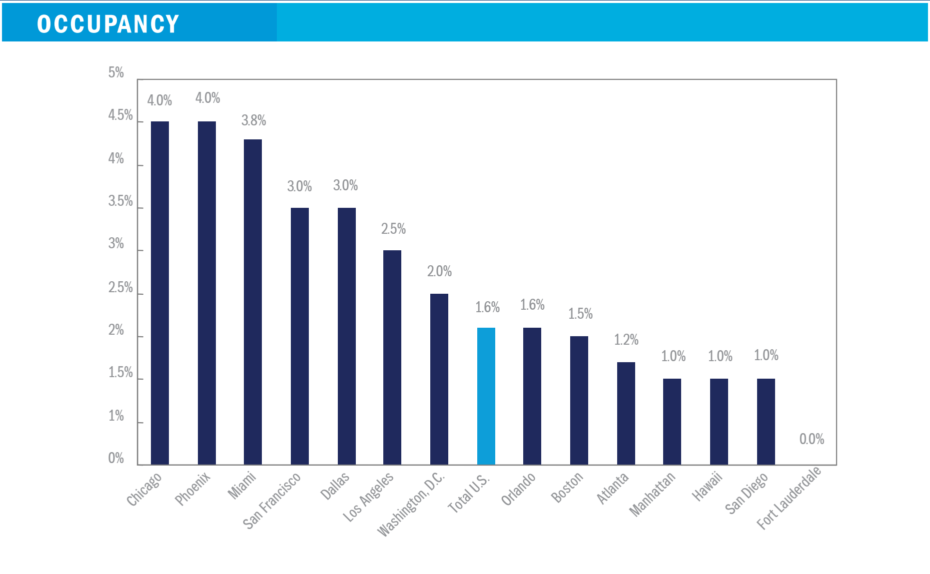
UNITED STATES

Source: Smith Travel Research

2006 Occupancy, ADR, and RevPAR Growth Estimates by Market

The following charts illustrate estimated year-over-year growth for occupancy, ADR, and RevPAR for each market covered in this report.

2006E Performance by Market

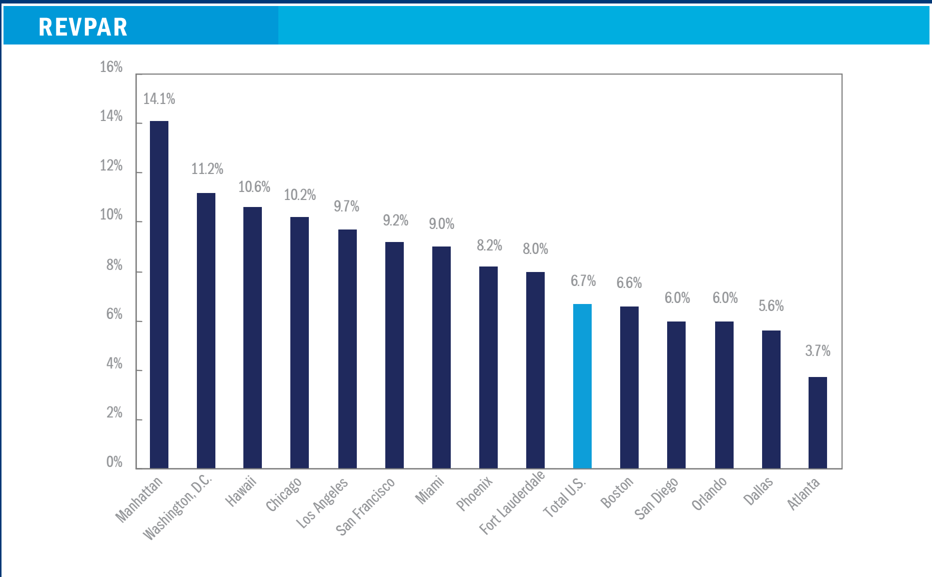


Source: Ernst & Young LLP Estimates

2006E Performance by Market

Source: Ernst & Young LLP Estimates

2006E Performance by Market



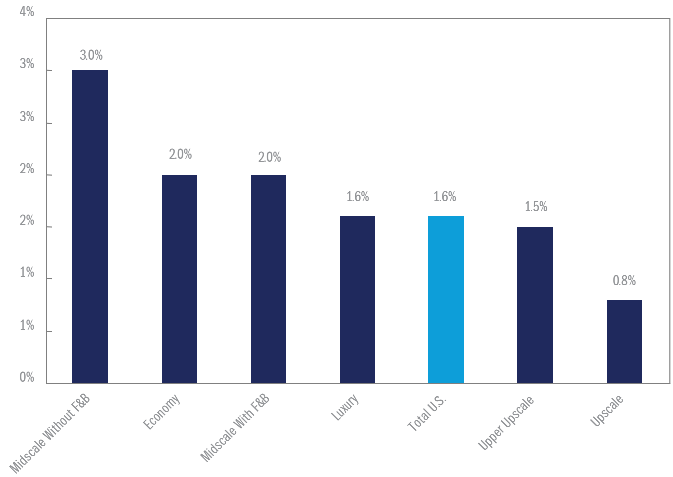
Source: Ernst & Young LLP Estimates

2006 Occupancy, ADR, and RevPAR Growth Estimates by Segment

The following charts illustrate estimated year-over-year growth for occupancy, ADR, and RevPAR for each chainscale segment.

2006E Performance by Segment

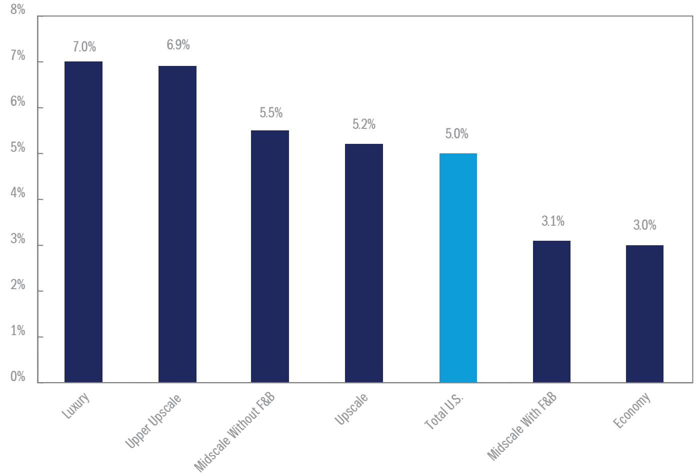
OCCUPANCY



Source: Ernst & Young LLP Estimates

2006E Performance by Segment

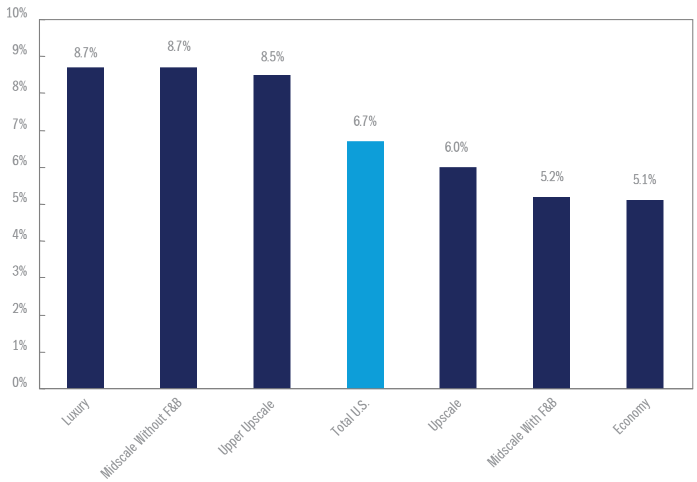
ADR



Source: Ernst & Young LLP Estimates

2006E Performance by Segment

REVPAR



Source: Ernst & Young LLP Estimates

RevPAR Trends by Chainscale

It is interesting to look at RevPAR growth trends by chainscale over various time horizons. RevPAR levels for all segments peaked in 2000 after experiencing steady increases from the 1990s onward. More recently, RevPAR levels began increasing again in 2004 and are anticipated to continue this trend at least into 2007. RevPAR levels in 2005 are anticipated to surpass the previous records achieved in 2000.

Since 2003, the Luxury segment has experienced the most significant increases in RevPAR, with an anticipated increase of approximately 35% in RevPAR for 2006 versus 2003 levels. The Upper Upscale, Upscale, and Midscale Without Food and Beverage chains also are anticipated to experience significant increases in RevPAR in 2006, at approximately 28%, 25%, and 30%, respectively, versus 2003 levels.

RevPAR Compound Annual Growth Rate by Chainscale

The Luxury and Midscale Without Food and Beverage segments have demonstrated the most significant compound annual growth rates between 1996 and anticipated 2005 levels. Growth rates for all segments were higher between 2001 and anticipated 2005, versus 1996 through anticipated 2005, as the hotel industry continues to demonstrate significant recovery from the early part of the decade.

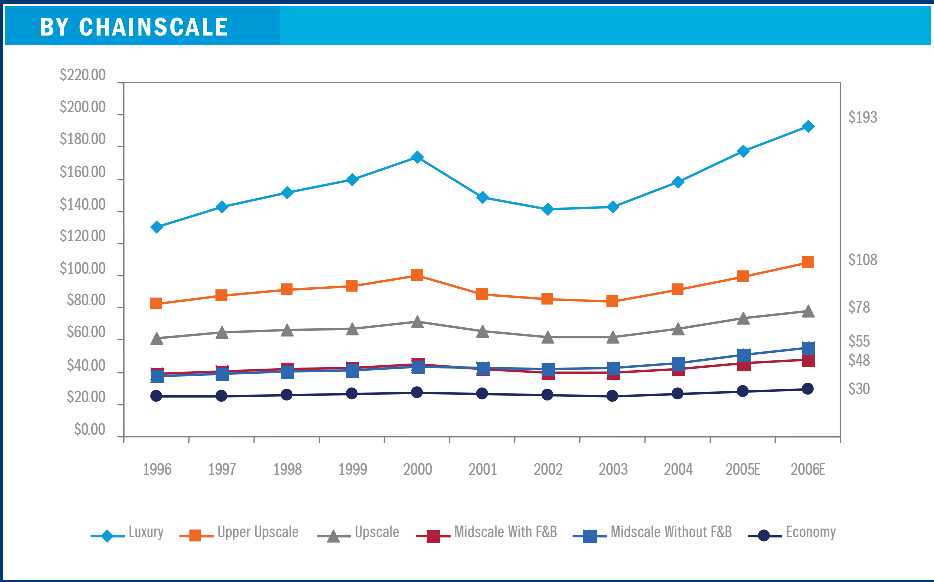
Both the Luxury and Midscale Without Food and Beverage segments are anticipated to experience a RevPAR compound annual growth rate of 4.5% between 2001 and anticipated 2005 levels.

The Midscale With Food and Beverage and Economy segments are anticipated to experience the weakest growth, with RevPAR compound annual growth rates at approximately 2.3% and 1.5%, respectively, between 2001 and anticipated 2005 levels.

Top Performing Markets

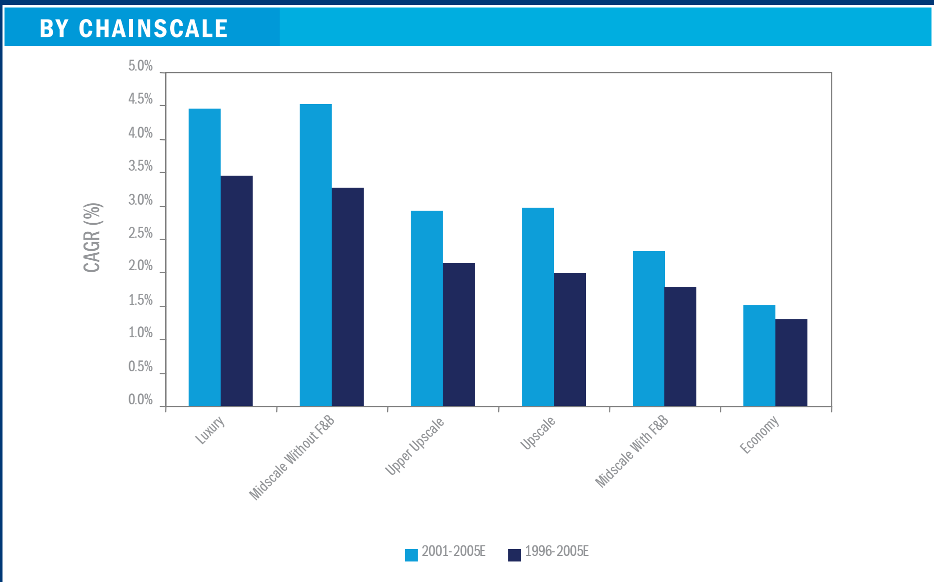
Manhattan continues to lead the major markets in terms of performance, with RevPAR in 2006 anticipated to reach $224, followed by Hawaii at $148. All of the major markets are anticipated to experience significant increases in RevPAR performance in 2006 versus 2003, with Manhattan, Miami, Hawaii, and Washington, D.C. experiencing the most significant gains at approximately 63%, 48%, 41%, and 41%, respectively. These performance gains can be attributed to several factors, including high corporate and leisure demand growth and minimal supply growth (and, in the case of Manhattan, supply declines). In addition, the Miami market has

RevPAR Trend (1996-2006E)



Source: Smith Travel Research

RevPAR Compound Annual Growth Rate



Source: Smith Travel Research

experienced a shift in the lodging product type toward higher-price Upper Upscale and Luxury brands, which has helped buoy performance as well.

Of the remaining markets with the highest anticipated RevPAR levels in 2006 (of the markets included in this report), other significant increases include Fort Lauderdale at approximately 38%, Los Angeles at approximately 38%, and Phoenix at approximately 35%, versus 2003 levels.

RevPAR Compound Annual Growth by Market

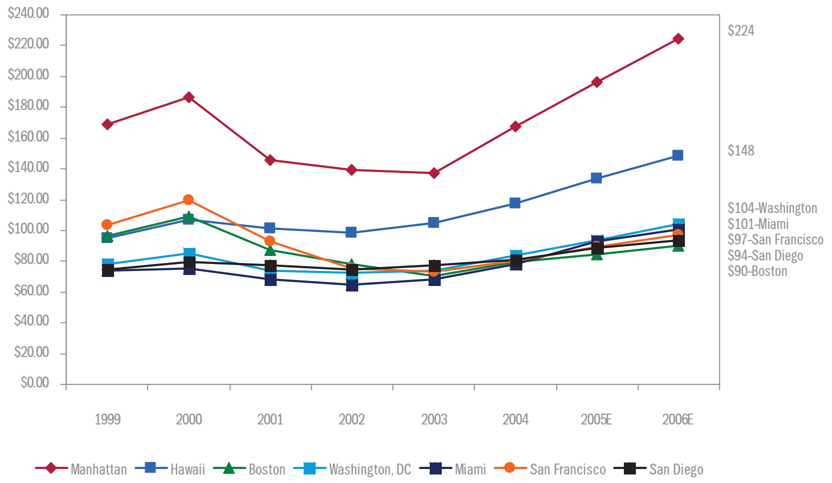
All of the major markets covered in this report experienced significant increases in RevPAR between 2002 and anticipated 2005 levels. Miami experienced the most significant gains, with a compound annual growth rate of approximately 13% between 2002 and anticipated 2005 levels. Other markets with significant increases include Manhattan (12.1%), Fort Lauderdale (10.9%), Hawaii (10.9%), and Washington, D.C. (9.2%).

Though some of the major markets are not at the RevPAR levels they experienced in 1999, all of them have experienced increases in RevPAR since 2002. San Francisco, which has experienced a RevPAR compound annual growth rate of approximately -2.4% between 1999 and 2005, has experienced a compound annual growth rate of approximately 5.8% since 2002, due to the gradual recovery of the technology industry.

Hawaii has experienced the most significant growth between 1999 and anticipated year-end 2005 levels, with a compound annual growth rate of approximately 5.9%. Other markets with significant growth between 1999 and anticipated 2005 levels include Fort Lauderdale (4.2%), Miami (3.9%), Washington, D.C. (3.1%), and Los Angeles (3.3%). Meanwhile, the market that experienced the weakest growth was San Francisco, with a compound annual growth rate of approximately -2.4% over the same time period.

RevPAR Trend (1999-2006E*)

TOP MARKETS

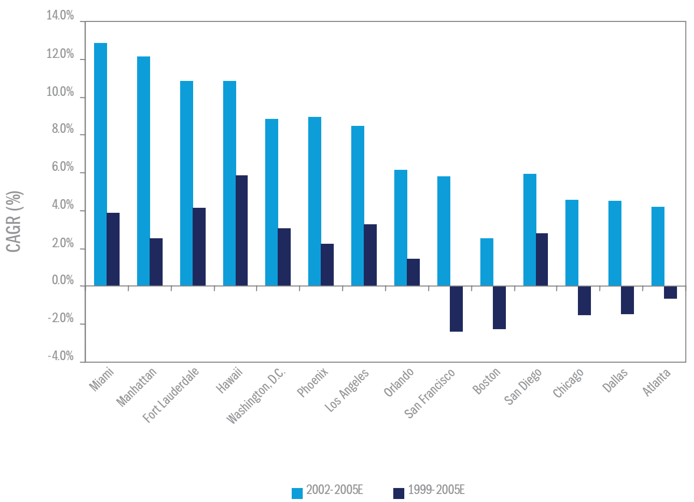


** For markets covered in this report.*

Source: Smith Travel Research

RevPAR Compound Annual Growth Rate

BY MARKETS



Source: Smith Travel Research

spotlight

segments

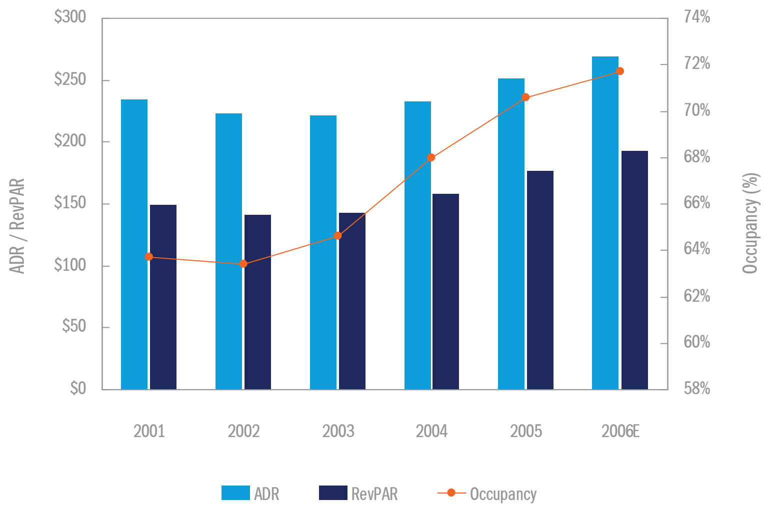
LUXURY

The lodging industry continues to demonstrate a strong recovery from the economic downturn. The luxury segment, in particular, continues to experience accelerated performance gains. Increases in both corporate profits and individual wealth contributed to higher demand for luxury lodging in 2005, and guests continue to demonstrate a migration from the lower end of the upper tier into luxury hotel products. As the recovery continues, management at luxury properties are in the position to become more selective in managing their market segmentation, by deemphasizing lower-rated groups and associations, and in some instances, leisure demand during peak periods of corporate transient travel. Compared to 2004, the combination of consumer wealth and flexible operations has resulted in the majority of luxury hotel brands experiencing significantly positive growth in occupancy, ADR, and RevPAR. The strong demand for luxury hotels has resulted in the introduction of many new luxury hotel brands such as Solis Hotels by West Paces Hospitality Group and Graves Hotels by Graves Hospitality Corp. The luxury segment has predominately been comprised of traditional brand-name hotel products, but with luxury travelers becoming more sophisticated, new products, including spa/boutique hotels, independent luxury hotels, vacation homes, and time shares have entered the market. As a result, the luxury market has become increasingly property-specific rather than destination-driven. The luxury supply will continue to expand in the international market to capitalize on wealth gains abroad resulting from the global economic recovery, while the U.S. luxury supply pipeline is anticipated to increase at a moderately steady pace over the next several years. Based on year-to-date data through November 2005 provided by Smith Travel Research, it is estimated that luxury segment lodging demand increased by 4.0% in 2005. Combined with a slight 0.4% increase in supply, occupancy in the luxury segment in 2005 was estimated at 70.6%, a 2.6 percentage point increase over 2004's occupancy of 68.0%. The segment's estimated ADR of $251 in 2005 represented a 7.8% increase over 2004. Overall, RevPAR increased an estimated 11.9% to $177 in 2005.

In 2006, it is anticipated that moderate occupancy growth and strong ADR gains will continue, with occupancy anticipated to increase by 1.1 percentage points to 71.7%, ADR by 7.0% to $269, and RevPAR by 8.7% to $193.

Lodging Segment Occupancy, ADR, RevPAR Performance

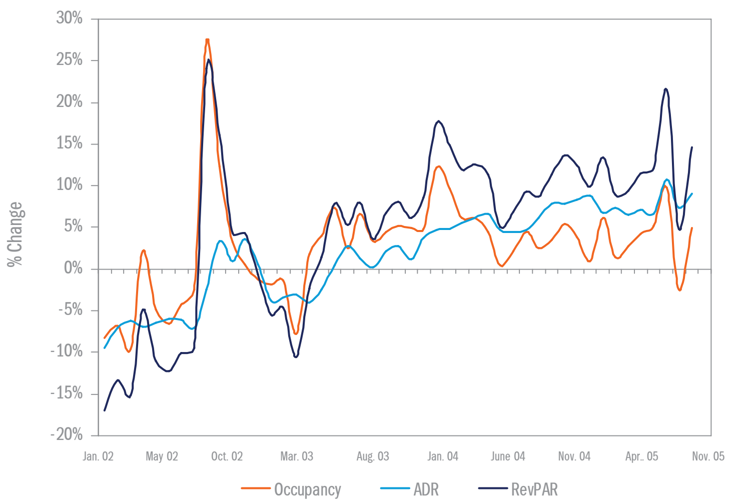
LUXURY



Source: Smith Travel Research

Lodging Segment Change in Monthly Occupancy, ADR, RevPAR Performance

LUXURY



Source: Smith Travel Research

UPPER UPSCALE

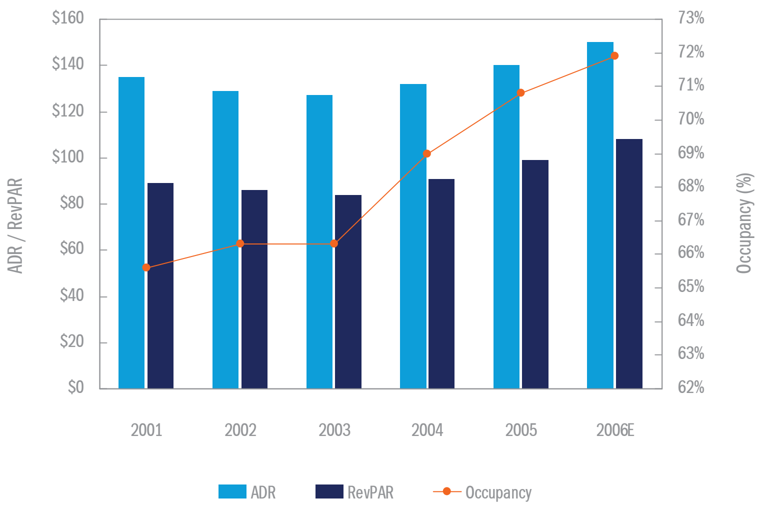
The Upper Upscale segment contains some of the most widely recognized hotel chains, including Marriott, Hilton, Sheraton, Westin, Hyatt, Doubletree, and Embassy Suites (among many others). This segment has benefited from the recovering economy as it experienced improving levels of corporate, convention, and leisure demand in 2005. Increasing corporate profits and general optimism toward the pace and duration of the economic recovery has also increased group and higher-rated corporate transient demand as well as demand from customers that have the flexibility to trade up the chainscale segments. As a result, performance metrics in 2005 have proven to be healthy, with occupancy and ADR returning to the peak levels achieved in 2000 with further anticipation to aggressively surpass those levels within the next 12 months.

Based on year-to-date data through November 2005 provided by Smith Travel Research, it is estimated that the Upper Upscale segment lodging demand increased approximately 4.0% in 2005. Combined with a minimal 1.5% increase in supply, occupancy in the Upper Upscale segment in 2005 was estimated at 70.8%, a 1.8 percentage-point increase over 2004's occupancy of 69.0%. The segment's estimated ADR in 2005 of $140 represented a 6.7% increase over 2004, contributing to a RevPAR increase of an estimated 9.4% to $99 in 2005.

In 2006, it is anticipated that strong gains in the Upper Upscale segment will continue, with occupancy anticipated to increase by 1.1 percentage points to 71.9%, ADR by 6.9% to $150, and RevPAR by 8.5% to $108.

Lodging Segment Occupancy, ADR, RevPAR Performance

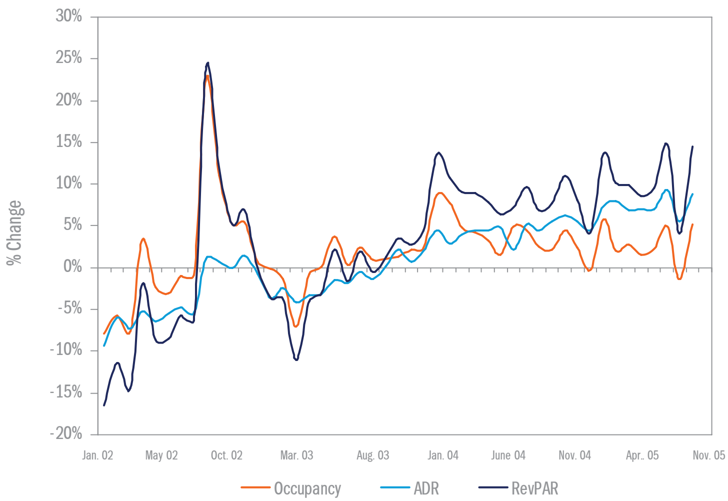
UPPER UPSCALE



Source: Smith Travel Research

Lodging Segment Change in Monthly Occupancy, ADR, RevPAR Performance

UPPER UPSCALE



Source: Smith Travel Research

UPSCALE

The Upscale segment also continued to report strong operating performance in 2005 as the lodging industry continued along the road to recovery. Improving demand levels and stable supply during the year provided positive growth performance, particularly from gains in ADR. This segment has been one of the fastest-growing segments over the past five years, a trend that is likely to continue as recent unveilings of new Upscale and Midscale brands are anticipated to be injected into the market over the next several years.

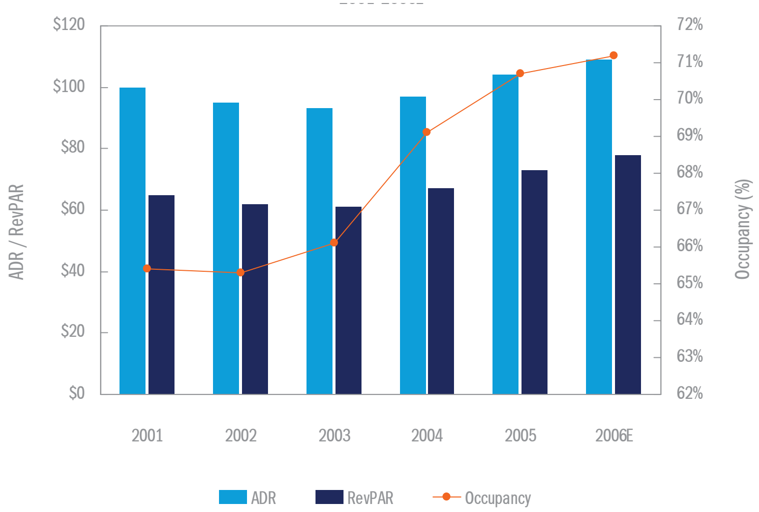
These price-conscious new brands, such as Starwood's "aloft," NYLO Hotels, and Hyatt Place are anticipated to offer comfortable accommodations targeted to the lifestyle needs of today's sophisticated travelers. The aloft brand has been referred to as a "W-lite" hotel, while NYLO Hotels will feature trendy, urban loft designs and Hyatt Place will fall into the extended-stay category and provide larger rooms with state-of-the-art technology. The current pipeline of new projects under construction remains robust and is anticipated to continue as supply from these new brands fulfill the demands of this particular consumer market.

Based on year-to-date through November 2005 data provided by Smith Travel Research, it is estimated that the Upscale segment lodging demand increased by approximately 4.0% in 2005. Combined with a slight 1.4% increase in supply, occupancy in the Upscale segment in 2005 was estimated at 70.7%, a 1.6 percentage-point increase over 2004's 69.1% occupancy. The segment's estimated ADR in 2005 of $104 represents a 7.3% increase over 2004, while RevPAR increased an estimated 9.8% to $73 in 2005.

In 2006, it is anticipated that strength will continue for the Upscale segment, with occupancy anticipated to increase by 0.5 percentage point to 71.2%, ADR by 5.2% to $109, and RevPAR by 6.0% to $78, surpassing RevPAR levels achieved in 2000.

Lodging Segment Occupancy, ADR, RevPAR Performance

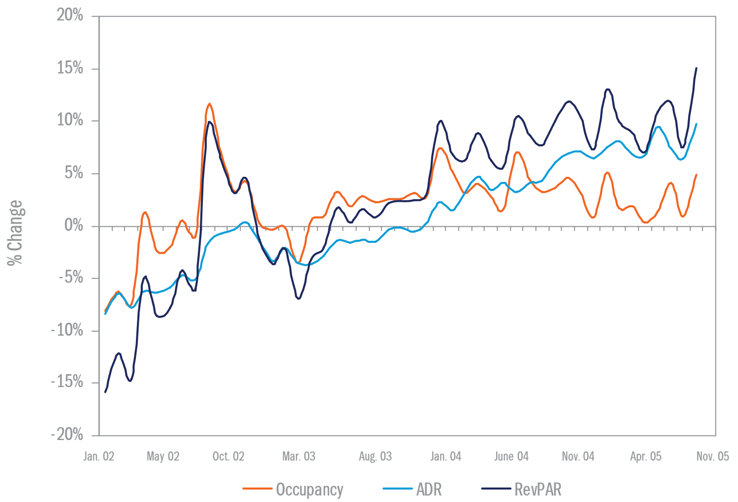
UPSCALE



Source: Smith Travel Research

Lodging Segment Change in Monthly Occupancy, ADR, RevPAR Performance

UPSCALE



Source: Smith Travel Research

MIDSCALE WITH FOOD AND BEVERAGE

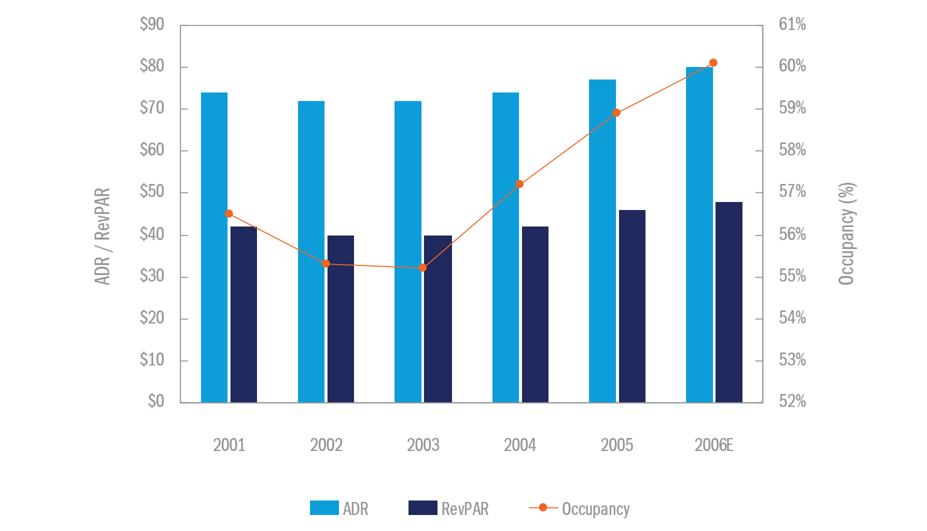
The lodging industry continued to recover for the third consecutive year in 2005, with the Midscale With Food and Beverage segment experiencing a moderate increase in performance relative to 2004. Increases in both occupancy and room rates resulted in encouraging RevPAR levels that exceeded the peak level achieved in 2000 prior to the economic downturn. There continues to be a decline in the number of midscale hotels offering food and beverage outlets due to operating inefficiencies that result in diminished profitability levels. In many cases, properties that do not meet performance metrics and/or brand standards are eliminated through conversions to non-food and beverage or economy brands, or are closed. The total supply of midscale hotels offering food and beverage outlets has now been reduced to similar levels as limited service midscale hotels, a reversal of the segmentation of two decades ago, when the majority of the midscale hotel supply did offer food and beverage outlets. As of mid-2005, the Midscale With Food and Beverage segment experienced nearly twice as much decline in room supply as it did for the entire year in 2004, with total room count decreasing by an estimated 2.8%. The 2005 year-end room supply is anticipated to decline further.

Based on year-to-date data through November 2005 provided by Smith Travel Research, it is estimated that lodging demand for the Midscale With Food and Beverage segment was unchanged in 2005 relative to demand levels in 2004. Benefiting from a simultaneous decline in lodging supply of 2.8%, occupancy in the Midscale With Food and Beverage segment in 2005 was estimated at 58.9%, a 1.7 percentage-point increase over 2004 occupancy of 57.2%. The segment's estimated 2005 ADR of $77 represented a 4.9% increase over 2004, while RevPAR increased an estimated 8.0% to $46 in 2005.

It is anticipated that modest improvement for the Midscale With Food and Beverage segment will continue in 2006, with occupancy anticipated to increase by 1.2 percentage points to 60.1%, ADR by 3.1% to $80, resulting in 5.2% RevPAR growth to $48.

Lodging Segment Occupancy, ADR, RevPAR Performance

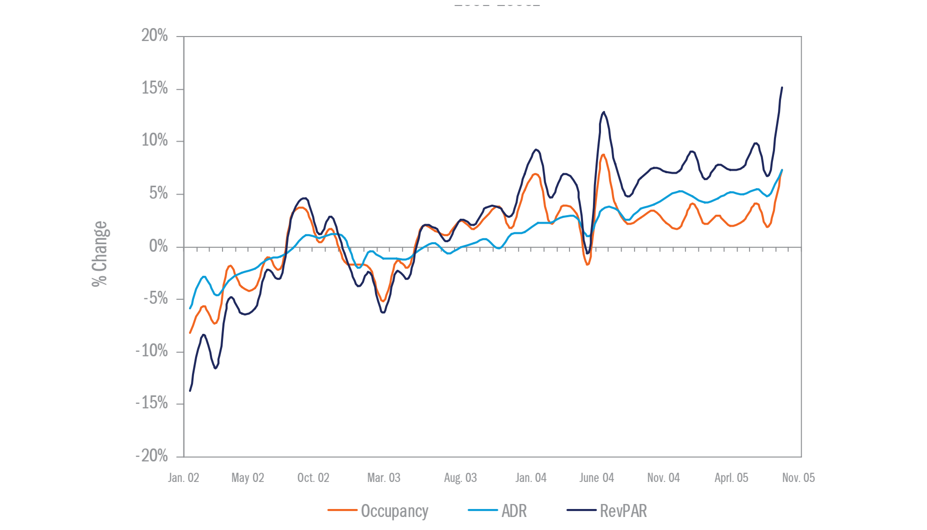
MIDSCALE WITH FOOD AND BEVERAGE



Source: Smith Travel Research

Lodging Segment Change in Monthly Occupancy, ADR, RevPAR Performance

MIDSCALE WITH FOOD AND BEVERAGE



Source: Smith Travel Research

MIDSCALE WITHOUT FOOD AND BEVERAGE

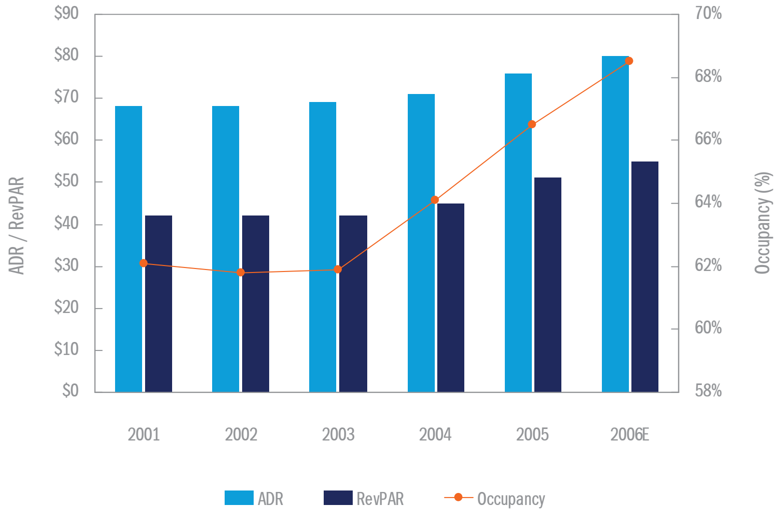
Operating performance among the Midscale Without Food and Beverage chains has been exceptional over the past several years. This segment experienced the smallest RevPAR declines during the downturn, returned to peak 2000 levels in 2004 (before any other chain scale segment) and continued this positive momentum with a double digit RevPAR increase in 2005. There continues to be a shift, both in supply and demand, toward limited-service midscale properties and away from full-service midscale properties due to significantly higher operating efficiencies and preferences among value oriented guests. While performance among this segment has flourished, the Midscale Without Food and Beverage segment remains one of the fastest-growing lodging segments in the United States, through new construction as well as conversions from full-service midscale properties. Indeed, more than 80% of the midscale properties in the various development stages (both under construction and in planning) are affiliated with chains in the Midscale Without Food and Beverage segment. Further, approximately 7,140 rooms (or 30% of the total pipeline) are scheduled to start construction within the next 12 months. Despite continued supply increases, performance among limited-service midscale properties is anticipated to continue to outperform full-service midscale properties over the next several years as the brands such as Fairfield Inn, Hampton Inn, Holiday Inn Express, and TownPlace Suites (among others) continue to improve their image and awareness, quality of product and services, and distribution across markets. As the economy continues to grow and demand among value oriented business and leisure travelers improves, performance among the Midscale Without Food and Beverage chains should remain robust.

Based on data through November 2005 provided by Smith Travel Research, it is estimated that lodging demand for the Midscale Without Food and Beverage segment increased approximately 4.7% in 2005. Occupancy for the Midscale Without Food and Beverage segment in 2005 was estimated at 66.5%, representing a 2.4 percentage point increase over 2004 occupancy of 64.1%. The segment's estimated 2005 ADR of $76 represented a 7.5% increase over 2004, while RevPAR increased an estimated 11.5% to $51 in 2005.

In 2006, it is anticipated that growth among the Midscale Without Food and Beverage segment will continue to outpace most other segments, with occupancy anticipated to increase by 2.0 percentage points to 68.5%, ADR by 5.5% to $80 and RevPAR by 8.7% to $55.

Lodging Segment Occupancy, ADR, RevPAR Performance

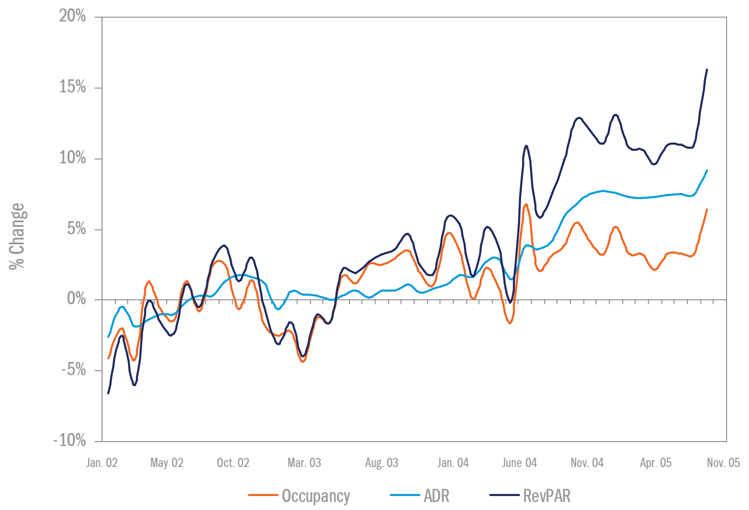
MIDSCALE WITHOUT FOOD AND BEVERAGE



Source: Smith Travel Research

Lodging Segment Change in Monthly Occupancy, ADR, RevPAR Performance

MIDSCALE WITHOUT FOOD AND BEVERAGE



Source: Smith Travel Research

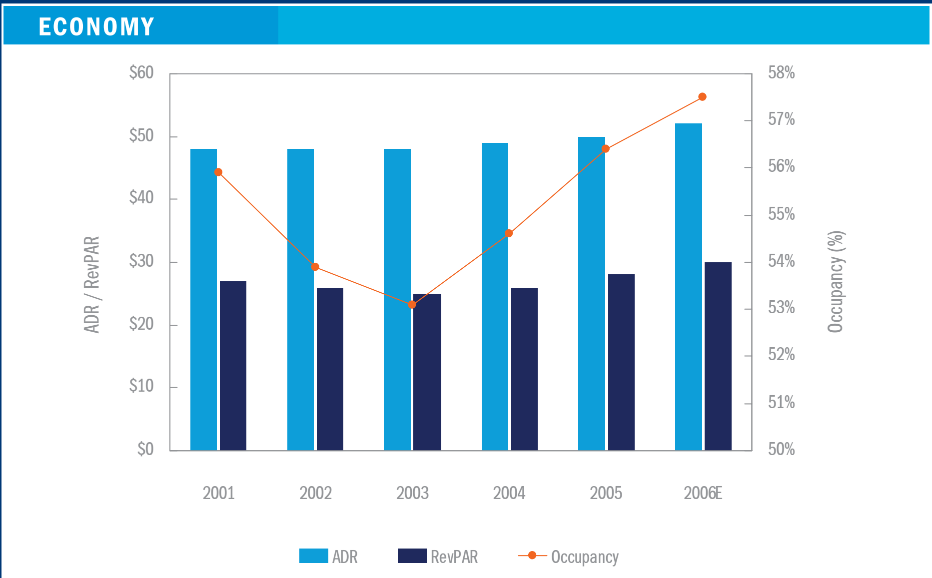
ECONOMY

As the overall economic environment continues to improve, the Economy segment continues to experience gains in performance; however, the rate of growth among this segment is expected to be lower than the other chainscales. With ADR approximately 30% below the midscale hotels, the Economy segment caters to the most price sensitive leisure travelers, which is likely to lead to reduced pricing power among these hotels. Further, while some of the Economy brands have high brand recognition, very few of these brands (e.g., Econo Lodge and Rodeway Inn) are affiliated with the industry's powerhouse brand families. As hotel loyalty programs continue to be an integral source of demand for properties, it may become more and more difficult for these brands to attract some of the less price-sensitive guests that frequent hotels within this segment, and who may be willing to trade up to a midscale segment in order to earn valuable frequent guest points. A combination of factors, including those mentioned above, has led the Economy segment to experience a decline in supply over the past three years, with brands eliminating under-performing properties in competitive markets. This trend is anticipated to continue in 2006.

Based on year-to-date data through November 2005 provided by Smith Travel Research, it is estimated that the Economy segment lodging demand increased approximately 3.5% in 2005. Coupled with an unchanged lodging supply, occupancy in the Economy segment in 2005 was estimated at 56.4%, a 1.8 percentage-point increase over 2004 occupancy of 54.6%. The segment's estimated ADR in 2005 of $50 represented a 3.5% increase over 2004, while RevPAR increased an estimated 6.9% to $28 in 2005.

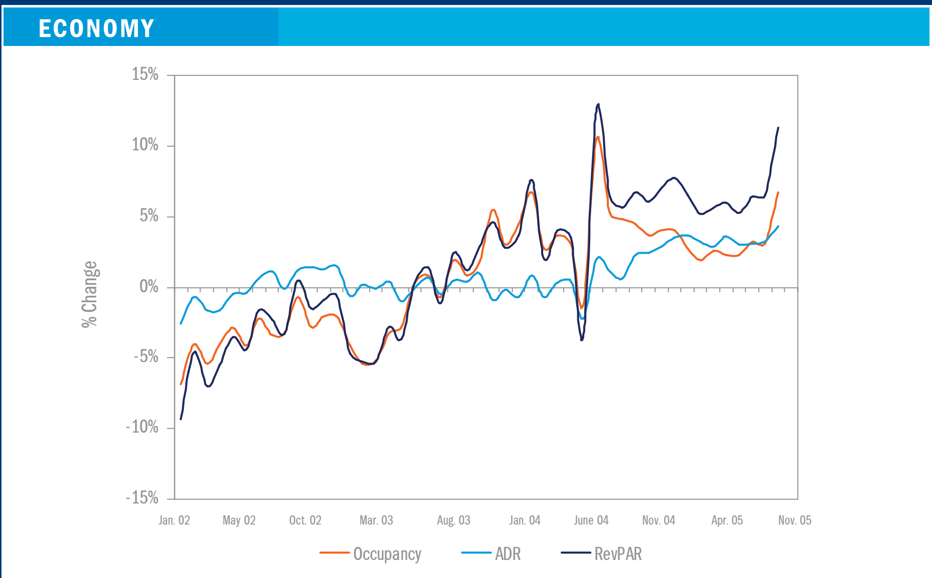
In 2006, it is anticipated that modest improvement in the Economy segment will continue, with occupancy anticipated to increase by 1.1 percentage points to 57.5%, ADR by 3.0% to $52, and RevPAR by 5.1% to $30.

Lodging Segment Occupancy, ADR, RevPAR Performance



Source: Smith Travel Research

Lodging Segment Change in Monthly Occupancy, ADR, RevPAR Performance



Source: Smith Travel Research

regions and markets

atlanta

ATLANTA

Introduction

Despite an increasingly competitive marketplace, the Atlanta lodging market was able to maintain much of the momentum gained in 2004 as both occupancy and ADR continued their upward trend in 2005. Much of the positive performance evidenced in 2005 can be attributed to increases in both business and leisure visitation to the Atlanta area, as well as a slowdown in additional lodging supply. Escalating construction costs and land values have also figured prominently in moderating new hotel developments, as only eight new projects were underway in the Atlanta area in 2005. Market occupancy levels grew for the second straight year – increasing an estimated 4.4 percentage points to 63.1% in 2005. This marks the highest occupancy level recorded since 2000. ADR also observed an increase of 4.0% to an estimated $79 relative to the previous year. Positive gains in both occupancy and ADR helped push RevPAR to an estimated $50 – representing an increase of 11.9% relative to 2004.

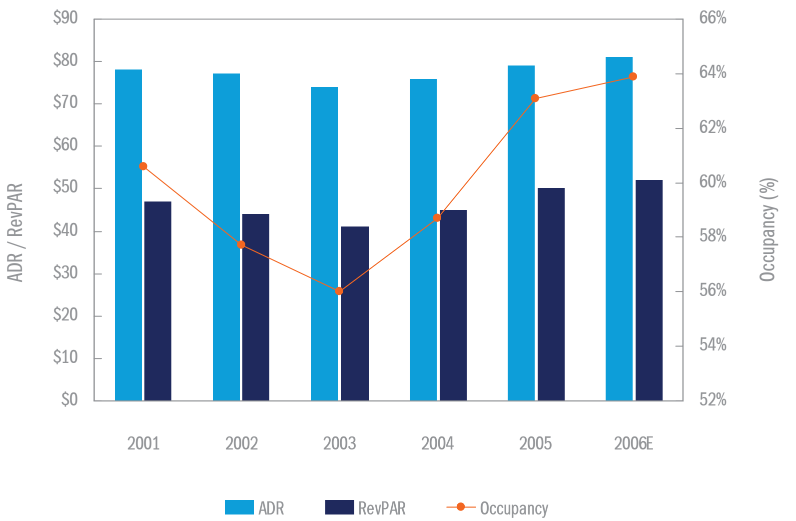
Another positive year is anticipated in 2006 as the area continues to benefit from improving supply/demand fundamentals, an increase in leisure travelers, and the opening of several high-profile attractions. As such, continued occupancy and ADR growth in 2006 is anticipated, albeit at a slower pace. Overall, occupancy is anticipated to increase 0.8 percentage point to 63.9%, while ADR is anticipated to grow by approximately 2.5% to $81, yielding a RevPAR of $52 in 2006, a 3.7% increase over the prior year.

Market Strengths

With more than 19 million annual visitors and a $3.5 billion convention and tourism industry, the city of Atlanta features more cultural, business and tourist offerings than any other city in the Southeast United States. Dubbed the "New Capital of the South," the city has quickly become a leading business and tourist destination, and is experiencing rapid population growth. Since 1980, Atlanta's population has grown at an annual rate of 3% making it one of the top five metropolitan areas in home construction over the last five years. Recently, Atlanta was listed eighth on a list of top 10 cities as destinations for combined business/pleasure trips by a recent Travel Industry of America survey. Hartsfield-Jackson Airport continues to bear the distinction of

Lodging Market Occupancy, ADR, RevPAR Performance

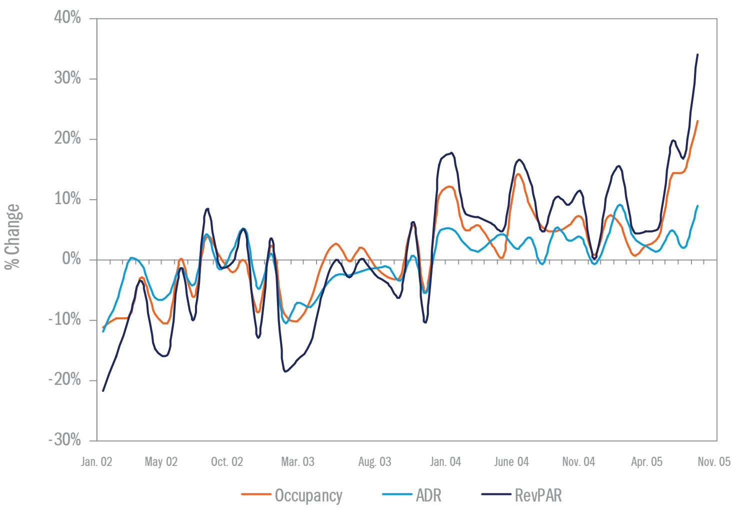
ATLANTA



Source: Smith Travel Research

Lodging Market Change in Monthly Occupancy, ADR, RevPAR Performance

ATLANTA



Source: Smith Travel Research

being the world's busiest passenger airport, and is anticipated to be the busiest in terms of flights by year-end 2005. An abundance of flights and carriers, as well as discount airlines such as Song and Air Tran, also play a significant role in helping attract visitors. The state's expansive highway system, coupled with the cargo capacity at the airport, has established Atlanta as one of the nation's premier trucking hubs. Furthermore, the area's central location puts it within one day's trucking of all 80% of U.S. consumers. With over 1.4 million square feet of convention space, the Georgia World Congress Center (GWCC) ranked as the fourth-largest facility in the nation in 2005.

According to the Metro Atlanta Chamber of Commerce, 13 Fortune 500 and 24 Fortune 1000 companies have headquarters in the Atlanta area. Overall, the city offers a combination of low cost of living, business services, quality of life, and talent that attract businesses and provide a desirable platform in which to operate and grow. In the last year and a half alone, Rayovac, Newell Rubbermaid, Merial, and Novelis all relocated their headquarters to the greater Atlanta area.

Market Challenges

The competition for convention dollars in the local market has become increasingly heated in the last couple of years as many of the city's largest hotels have expanded their meeting facilities in order to satisfy the demand for smaller conferences, while complementing the facilities at the GWCC. Certainly the loss of the National Association of Home Builders (NAHB) convention in 2007 and 2008 will be difficult for the local market to absorb. The annual NAHB conference – the city's largest conference with over 100,000 participants – recently pulled two future shows out of Atlanta due in part to the lack of hotel rooms within proximity to the GWCC. Each show was estimated to generate over $119 million in direct spending.

With over 92,000 hotel rooms, Atlanta is one of the largest lodging markets in the country. However, the majority of these rooms are concentrated in suburban markets, generally too far for the typical conventioneer. Many local experts believe the addition of more hotel rooms in the downtown area would help Atlanta compete more effectively with the first-tier, large-convention cities, such as Las Vegas and Orlando. In addition, the financial woes of local carrier Delta Airlines may also adversely affect airlift to Atlanta; the embattled airline filed for bankruptcy in mid-September after recording losses of more than $11 billion since 2001. Despite taking significant pay cuts over the last year, many Delta employees may soon be looking for work as the company announced plans to cut an additional 9,000 jobs.

Demand Changes

While Atlanta continues to enhance its image as a premier destination for business and leisure travelers, the city has also been able to show its humanitarian side. Local hotel owners and other volunteer organizations have provided shelter to thousands of Hurricane Katrina evacuees. According to recent reports, an estimated 21,500 Atlanta-area hotel rooms are housing evacuees. Though most of the evacuees are staying in hotels outside of the Central Business District (CBD), it has nevertheless provided a temporary occupancy boom to the lodging sector.

The displacement caused by Katrina has not only affected thousands of residents, but also companies that had planned on having annual conferences in New Orleans. The hurricanes severely affected business destinations such as New Orleans' Morial Convention Center, which had to cancel all conventions through March 2006 due to damage sustained in the hurricane. Many of the conventions have now chosen to relocate to markets like Atlanta, Dallas, and Orlando. In all, 117,000 people are expected to attend 10 shows the GWCC has picked up from New Orleans. Furthermore, Atlanta was selected to host this season's Sugar Bowl due to the extensive damage to the Superdome. Regional officials estimate the local economic impact of hosting the game to be between $35 million and $40 million.

Atlanta's Hartsfield-Jackson International Airport continues to make progress on its 10-year, $5.4 billion expansion project which includes adding a fifth runway, a new international terminal, and completing substantial upgrades of its current facilities. Last year alone, the airport handled 83 million passengers, which is expected to be surpassed by the end of 2005. The total annual regional economic impact of the airport is estimated at more than $18.7 billion.
After years of seeking a blockbuster attraction, downtown Atlanta now has the world's largest aquarium to anchor its revitalized tourist district. The aquarium, which opened in November, is expecting to draw more than 2 million visitors in the first year and have an estimated $1 billion economic impact over the first five years.

The local commercial real estate market also continues to prosper despite economic uncertainty and rising interest rates. After experiencing negative net absorption in 2002 and 2003 in the office and industrial sectors, the market has bounced back in the last two years, posting strong occupancy growth at rates not seen since early 2000; an increased corporate base should further support lodging fundamentals in the mid-term. Atlanta is also one of five cities currently being considered for the Stock Car Racing Hall of Fame, which could potentially add millions of dollars to the local economy. The proposed hall of fame site would sit next to Centennial Olympic Park, near the new Georgia Aquarium, CNN Center, and the planned location for the new World of Coca-Cola.

Ground was broken on the new World of Coca-Cola in June 2005 on a 20-acre site adjacent to the new aquarium. The project is anticipated to be completed during the summer of 2007. The museum will be located in a 75,000 square-foot facility and will be approximately 50% larger than the current one at Underground Atlanta. At year-end 2005, The World of Coca-Cola ranked as the most visited indoor attraction in Atlanta. One economic impact study stated that the new World of Coca-Cola and the Georgia Aquarium is anticipated to boost the state's economy by a combined $200 million a year.

Supply Changes

Atlanta's lodging inventory increased by 0.7% in 2005 due primarily to the addition of limited-service properties to the market. In 2006, the majority of new development will continue to be concentrated in outlying areas, with only a handful of small boutique developments coming on-line in the downtown and midtown markets. The Glenn, which is being developed by Legacy Property Group, is a renovation of the circa 1923 Glenn Building that will add 110 rooms to the downtown market. Novare Group's Twelve 14th Street hotel is scheduled to open in February, 2006 in Atlantic Station and features 101 hotel units combined with 404 condominium units. Atlanta's luxury lodging segment is anticipated to continue to grow in the next two years, as three new projects are in the planning stages. Starwood Hotels & Resorts has selected Buckhead as the next destination for a 26-story St. Regis Hotel; the 150-room luxury hotel, which is scheduled to open in 2008, will contain 50 private residences. Starwood also has plans to add two additional W hotels to the greater Atlanta area in the near future. The first which will be built in Buckhead off of Lenox Road, is slated to come on-line in June 2006 and will have 225 rooms, while another property featuring 325 rooms is scheduled to be built downtown.

Hotel Closings, Anticipated Openings, and Renovations

The following charts summarize selected major supply changes.

Hotel Closings in 2005

PROPERTY	LOCATION	UNITS	CLOSING DATE	COMMENTS
The Pine Isle Resort	Lake Lanier Islands	254	Nov 2005	Operated by Marriott under Renaissance brand

Planned Additions

PROPERTY	LOCATION	UNITS	SCHEDULED OPENING DATE	DEVELOPER/ OWNER
W Hotel	Buckhead	225	Jun 2006	Starwood Hotels
Twelve Centennial Park	Downtown	102	Dec 2007	Novare Group
St. Regis	Buckhead	147	Jan 2008	Jim Cowart Inc.
Twelve 14th Street	Midtown	130	Jun 2008	Novare Group
W Hotel	Downtown	325	NAV	Starwood Hotels

Major Transactions in 2005

The hotel transaction market in Atlanta was relatively quiet in 2005. Three local hotels were included in InterContinental Hotel Group's sale of 73 hotels to LRG Acquisition Limited. The three assets included the 190-room Holiday Inn – Airport, the 118-room Alpharetta Staybridge Suites, and the 143-room Staybridge Suites – Atlanta Perimeter. Prices for the individual assets were not available.

Other transactions include the 312-room Wyndham Atlanta, which sold for $75.12 million ($240,769 per room) to the Columbia Sussex Corp in October, and the 143-room Prime Hotel-Perimeter Center, which sold for $3.5 million ($24,476 per room) to Phoenix Family Partner, Inc. in November.

Political/Economic/Legal Changes

Since 1994, the Atlanta metro area has experienced phenomenal growth as its population has grown over 34% in just over a 10-year period. Recent enhancements to the area's tourist district should further improve the local economy which accounted for approximately $9.6 billion of the $15.4 billion visitors spent in the state of Georgia in fiscal year 2004. Nevertheless, the recent spate of hurricane activity may affect the local economy in the coming quarters, as elevated energy prices and cutbacks in discretionary spending may put a damper on GDP growth. However, with passenger traffic back to pre-9/11 levels in Atlanta and across the country, and the city's renewed commitment to branding itself as a true tourist destination, the long-term economic outlook for Atlanta is very positive.

regions and markets

boston

BOSTON

Introduction

In 2005, the Boston lodging market experienced performance improvements due to gains in both ADR and occupancy levels as a result of continued economic recovery. These positive market fundamentals were evidenced by increasing airport traffic at Logan International Airport as well as demand growth in the convention and luxury hotel sectors. Increases occurred across all demand segments, including group, corporate transient, and international demand. The market is anticipated to continue its upward trend with improving macroeconomic conditions during 2006.

According to year-to-date November 2005 data provided by Smith Travel Research, the Boston lodging market experienced an ADR and occupancy increase of 4.4% and 1.2 percentage points, respectively, compared to the same period last year. ADR grew from $125 to $130, enabling the Boston market to achieve the fourth-highest ADR level of all major U.S. lodging markets. By year-end 2005, occupancy is anticipated to be 65.3%, a 1.1 percentage-point increase over year-end 2004, while ADR is anticipated to increase 4.1% to $129, resulting in a RevPAR increase of 5.9% to $84. In 2006, it is anticipated that the Boston market will experience a 1.0 percentage-point increase in occupancy and a 5.0% increase in ADR, resulting in a RevPAR of $90, an increase of 6.6% over 2005.

Market Strengths

Similar to other major lodging markets in the U.S., Boston experienced strong transaction activity during 2005. Furthermore, the city saw an increase in luxury hotel developments, a sector that has not seen significant new development for the past several years. The new Boston Convention & Exhibition Center (BCEC) which opened in mid-2004 has begun to see more convention center bookings over the course of 2005 and is anticipated to attract more group demand in the future.

Lodging Market Occupancy, ADR, RevPAR Performance

Source: Smith Travel Research

Lodging Market Change in Monthly Occupancy, ADR, RevPAR Performance

Source: Smith Travel Research

Market Challenges

With an overall stable national economy, low interest rates, and marginal stock market performance, luxury real estate development as an investment vehicle has experienced a boom in Boston. However, with moderate demand anticipated for the local lodging market coupled with an increase in luxury hotel development, it is uncertain whether there is sufficient demand for the significant number of new high-priced hotel rooms opening in 2006 and 2007 to be immediately absorbed into the market.

Another challenge is Boston's relatively weak office market, with 7.25 million square feet of office space vacant, resulting in a 12.2% vacancy rate as of the third quarter of 2005. However, office market conditions appear to be improving with a positive absorption of 576,687 square feet representing a 1% improvement over the past year for the Boston Central Business District (CBD) as of the third quarter of 2005. Additionally 29,000, new jobs were created in Massachusetts over the past year, with the leisure and hospitality industry seeing the largest gains of 7,700 net jobs. The moderate increases in office occupancy levels and employment rates are both factors in fueling the moderate growth anticipated in corporate lodging demand.

Demand Changes

High-technology, bio-technology, and pharmaceutical companies continue to be strong demand generators for the Boston lodging market. Demand continues to be fueled by transient corporate demand. The emergence of luxury hotels, a segment that has not grown significantly in the past, as well as the imbedded condo-hotel units they offer, demonstrates an increase in high-rated transient business. Over the next three years, luxury hotels such as the InterContinental, Mandarin Oriental, and Regent International Hotels are scheduled to open. These projects include condominium units, a popular financing vehicle used by developers and investors. With new luxury hotels and condominium developments, it is anticipated that downtown Boston will experience an increase in lodging demand levels.

Office vacancies continue to struggle as high occupancies continue for the fifth straight year, and major financial tenants seeking to sublet their space added 1.7 million square feet to the market in 2005. Specifically, Manulife Financial's acquisition of John Hancock and Bank of America's purchase of Fleet Bank have both impacted the Boston office market, significantly increasing vacancies. While some developers have taken to converting office space to condos and other mixed-use projects, the continued poor office vacancy levels in the area indicate that demand still lags behind 2000 levels.

The heavily anticipated $800 million BCEC, which opened in June 2004 in South Boston, experienced its heaviest bookings during the third quarter of 2005. The Massachusetts Convention Center Authority reported 17 contracts that have been confirmed, scheduled to take place between the end of 2005 and 2016. The conventions are anticipated to bring in 196,000 visitors, equating to $93 million for the area. The BCEC is anticipated to achieve lower levels of demand for year-end 2005 and 2006, however, than originally anticipated during the planning phases.

Supply Changes

Over the next few years, Boston's lodging supply is anticipated to experience modest growth with 2,650 rooms in the construction and final planning stages and 4,450 rooms in earlier planning stages, many of which are not anticipated to reach fruition. The anticipated increase in supply is largely driven by luxury and mixed-use developments, including the following: The conversion of the Charles Street Jail Hotel, the 153-year-old historic jail, into a 308-room full service hotel; the conversion of former office space in the historic Ames building into the 130-room boutique O'Callaghan Hotel; the new 150-room Regent International, part of a mixed-use Battery Wharf project consisting of retail, hotel, condominium, and marina; a 149-room Mandarin Oriental Hotel to be housed in the Prudential building, which will include a 15,000 square-foot spa and 50 condominium units; the 790-room Westin Hotel adjacent to the BCEC; and the InterContinental Hotel scheduled to open in the financial district in July 2006.

Hotel Closings, Anticipated Openings, and Renovations

The following charts summarize selected major supply changes.

Hotel Closings in 2005

PROPERTY	LOCATION	UNITS	CLOSING DATE	COMMENTS
Newton Park Inn	Chestnut Hill	144	January 2005	
Wellesley Travel Inn	Wellesley	65	January 2005	

Major Renovations in 2006

PROPERTY	LOCATION	UNITS	SCHEDULED RENOVATION DATE	OWNER
Royal Sonesta Boston	Cambridge	200	January 2006	Sonesta International Hotel Corporation

Planned Additions

PROPERTY	LOCATION	UNITS	SCHEDULED OPENING DATE	DEVELOPER/OWNER
Residence Inn	Norwood	128	May 2006	K W Hotel Corp
Westin Boston Waterfront	Waterfront (South Boston)	790	July 2006	Massachusetts Convention Center Authority (MCAA)
InterContinental Boston	Financial District	424	July 2006	Boston Edison Co – NSTAR Services
O'Callaghan Hotel Boston	Back Bay	130	August 2006	Noel O'Callaghan
Charles Street Jail Hotel	Beacon Hill/West End	308	February 2007	Massachusetts General Hospital Planning Department
Mandarin Oriental Boston	Back Bay	149	May 2007	CWB Boylston
Renaissance Hotel	South Boston	471	May 2007	South Boston Waterfront Development LLC
Unnamed Hotel	South Boston	300	June 2007	Gerald D Hines Interests
Regent Boston at Battery Wharf	Waterfront (South Boston)	150	October 2007	Development Management Corporation
Unnamed Hotel at Columbus Center	Back Bay	180	June 2008	Columbus Center Associates
Russia Wharf Hotel	Financial District	300	2008	Equity Office Properties
Loews Hotel	Theater District	390	TBD	Sawyer Enterprises

Major Transactions in 2005

In 2005, the Boston lodging market experienced strong transaction volume highlighted by the five following major hotel sales: LaSalle Hotel Properties purchased the 803-room Westin Copley Place for $318 million ($396,000 per room) and the recently opened 112-room boutique Onyx Hotel sold for $28.6 million ($255,000 per room). Highland Hospitality Corporation purchased the Hilton Boston Back Bay for $110 million (approximately $286,000 per room), Columbia Sussex Corp purchased the 362-room Wyndham Boston for $87.15 million ($240,150 per room) and Innkeepers USA Trust bought the 80-room Bulfinch Hotel for $19.6 million ($245,000 per room). In November, the 374-room Sheraton Braintree Hotel, the 346-room Westin Waltham-Boston, the 247-room Sheraton Needham Hotel, and the

1,216-room Sheraton Boston Hotel were included in Host Marriott Corporation's acquisition of 38 hotels from Starwood Hotels & Resorts. The portfolio consists of approximately 18,964 rooms and sold for $4.04 billion.

The limited service and extended-stay lodging markets in Boston have also experienced an increase in transaction volume as Equity Inns Incorporated purchased a Homewood Suites and a Hampton Inn, with a combined total of 206 rooms, for $15.2 million ($74,000 per room) in October. Hersha Hospitality Trust purchased a 164-room Courtyard by Marriott in South Boston for an undisclosed price and RLJ Cambridge Hotel, LLC purchased the Residence Inn Boston Cambridge for an undisclosed price.

Political/Economic/Legal Changes

The Massachusetts Port Authority has pledged over $1 billion in a modernization effort to improve Logan International Airport, the major air transportation hub in New England, to meet the needs of an anticipated 37.5 million to 40 million passengers per year starting in 2010. Terminal A, a $400 million new terminal, is roughly the size of the new BCEC and is now home to 18 gates for Delta and Song airlines. JetBlue airline is also poised to significantly increase its presence at Logan by leasing an additional 11 gates. Additionally, construction on a new runway finally began in April, 32 years after it was first announced. A Suffolk County Court lifted an injunction last year that had prevented the runway from being built. Fierce litigation is still likely over the course of construction but it is anticipated to be completed on schedule.

Construction continues on the InterContinental Hotel currently under development at 500 Atlantic Avenue despite litigation issues and protests from Boston's major hotel union (Local 126). This property, along with the majority of luxury hotels in Boston, is scrutinized by local unions, as many of these properties operate without union workers despite the significant union presence in the city.

regions and markets

chicago

CHICAGO

Introduction

By all indications, Chicago's lodging industry made notable progress in 2005. Demand continued to outpace supply in the downtown market, although an abundance of supply kept the O'Hare market from making a significant turnaround. Based on November year-to-date data from Smith Travel Research, it is estimated that overall occupancy in the Chicago market increased 2.2 percentage points to 64.2% while ADR increased 6.6% to $109. As a result, RevPAR increased approximately 10.4% to $70.

The outlook for Chicago in 2006 is positive. In 2006, occupancy is anticipated to increase 2.5 percentage points, while ADR is anticipated to increase 6% to $116. RevPAR is anticipated to increase 10.2% to $77, further closing the gap between recent performance and peak 2000 levels. However, there are currently 15 new hotels planned for downtown, including several condominium-hotel projects, with construction occurring over the next five years. If all these developments proceed as planned, lodging supply would increase by 10%, with the majority being within the luxury segment.

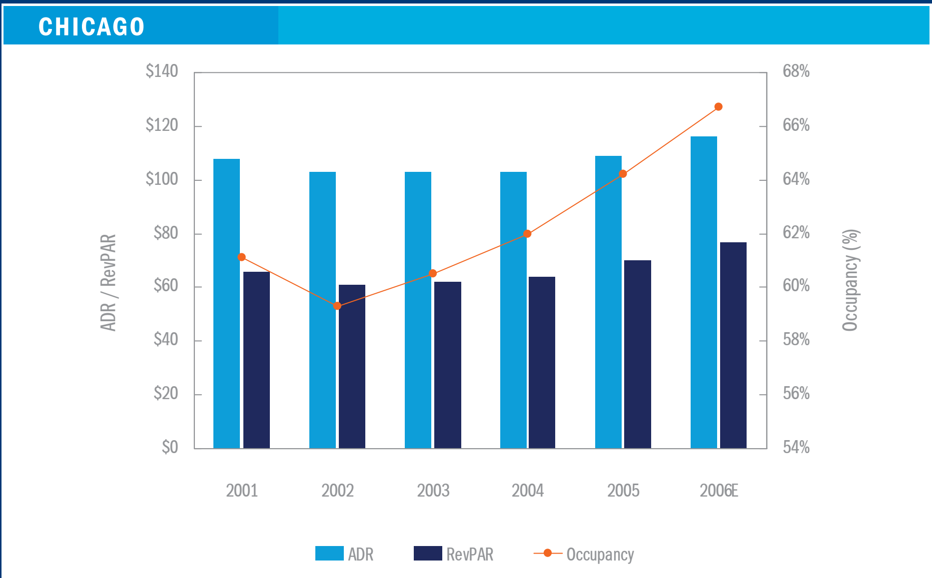
Market Strengths

Chicago is a center for both business and leisure travel. With two major airports, a host of world-class museums, multiple sports teams, the nation's largest convention facility, and overall corporate activity second only to New York, Chicago continues to be a destination for a broad range of visitors. In addition, the White Sox and their recent World Series win is expected to further bolster Chicago's image nationwide.

Market Challenges

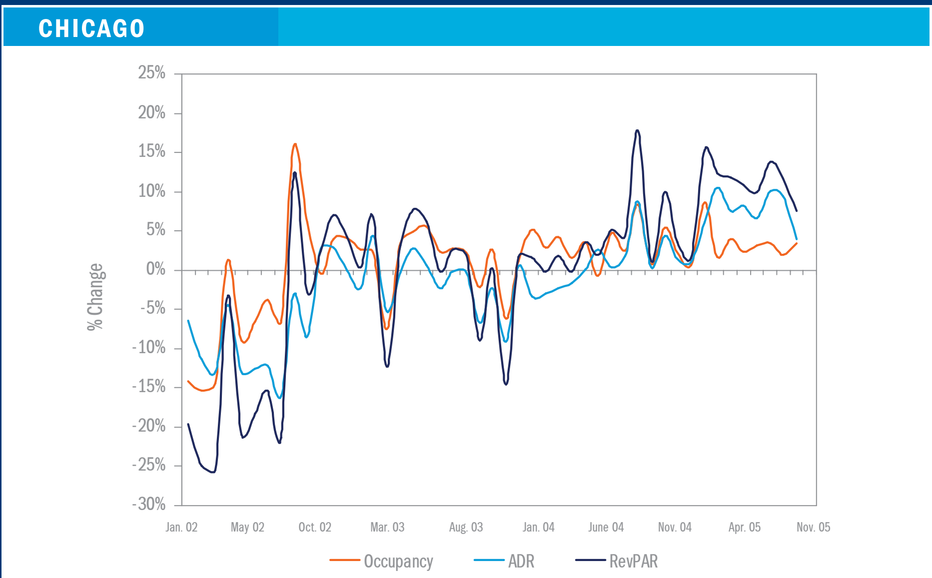
Although traditionally the Loop has been Chicago's business district, an increasing number of companies continue to move to the west suburbs where high-end office space is available at much lower costs.

Lodging Market Occupancy, ADR, RevPAR Performance



Source: Smith Travel Research

Lodging Market Change in Monthly Occupancy, ADR, RevPAR Performance



Source: Smith Travel Research

Demand Changes

McCormick Place, currently undergoing an $850 million expansion, is already the largest exhibition venue in the United States with over 2.2 million square feet of exhibition space. The facility contains 112 meeting rooms, assembly seating for 10,000, and a 4,200-seat theater. The addition of McCormick Place West, scheduled to open in 2008, will add 470,000 square feet of exhibition space and 250,000 square feet of meeting space. According to the Chicago Convention and Tourism Board, the expansion, which includes a high ratio of meeting-to-exhibit space, will be ideal for the growing number of events such as medical conferences and educational meetings. Nine associations in these two fields alone have committed to host 14 events at McCormick Place West, illustrating the strength of demand for this facility well before its opening. The Chicago Convention and Tourism Bureau anticipates that this expansion will help reverse the five-year trend of McCormick Place losing market share to other convention locations, such as Las Vegas and Orlando. Additionally, Hurricane Katrina prompted the relocation of two conventions to McCormick Place in 2006. Combined, the two conventions will bring 28,000 attendees and generate more than $52 million in spending.

Third-quarter 2005 data suggests that Chicago's office market will not make a recovery this year. Approximately 20% of the office space is vacant, with downtown vacancy increasing to 18%. Poor near-term prospects for job growth have weakened office demand and lead some landlords to lease space at a loss.

In 2004, travel to Chicago generated approximately $9.3 billion in direct spending, which represented an increase of 6.8% from the previous year. O'Hare International Airport, one of the busiest airports in the world, was busy again in 2005 as data through September shows passenger volume increased 1.4% over the corresponding period in 2004. In November, the Bush administration approved a $337 million down payment to help build new runways at O'Hare. The funding assistance, which will be received over 20 years, is part of a $7.5 billion project that will enable the airport to add nearly 500 flights per day. Hotels in the O'Hare airport market have experienced poor performance over the past several years, and continued growth in passenger volume at O'Hare should support improvement in operating performance. However, an increase in supply in the area could mitigate this positive impact on occupancy if demand does not grow commensurately. On the other side of the city, Midway Airport experienced a significant decrease in travel in 2005, with passenger volume through September decreasing 11.7% relative to the corresponding period in 2004. According to the Department of Aviation, this decline was due to a disruption in travel patterns caused by the bankruptcy filing of ATA airlines during the fourth quarter of 2004. Although it is expected that year-end 2005 figures will be slightly lower than 2004, it is anticipated that Midway Airport will recover as other airlines such as Southwest continue to increase the number of flights from this hub. Furthermore, Midway recently completed a major redevelopment program intended to generate traffic, which should assist in its flight and passenger volume recovery.

The newly completed Millennium Park continued to attract visitors to the area. The $475 million, 24.5-acre park, which has drawn millions of visitors since its opening in 2004, has also sparked a revitalization of its surrounding neighborhood. With large crowds flocking to special events at the Jay Pritzker Pavilion, new restaurants and retail outlets have rushed to develop nearby space.

In July 2005, the 7,500-seat Charter One Pavilion at Northerly Island (formerly Meigs Field) opened, attracting thousands of visitors throughout the summer months. The temporary, yet state-of-the-art concert venue, hosted family matinee events and concerts by some of today's most popular artists including Destiny's Child.

In November 2005, ground was broken on phase one of a retail, residential, entertainment, and transportation center in the middle of Chicago's Loop. When complete, the much anticipated Block 37 project will feature 400,000 square feet of retail, entertainment, and dining uses; 200,000 to 450,000 square feet of office space; a 200-to-300-room hotel; a 200-to-300-unit residential tower; and a state-of-the-art CTA transit station providing express service to both of the city's major airports.

Supply Changes

Over the past five years, Chicago has experienced an increase in lodging supply of approximately 7.6% with nearly a 40% increase in the Luxury segment and a greater than 17% increase in the Upscale segment. However, the Midscale With Food and Beverage segment has experienced a greater than 15% decrease during the same time period with a decrease of 10.9% between September 2004 and September 2005. Year-to-date data through September shows the total number of available rooms in Chicago increased 1.5% this year. The number of rooms anticipated to open in 2006 suggests a minimal increase of 0.6% with the majority of the increase in the Upper Upscale segment.

Chicago witnessed a number of condo-hotel additions in 2005. The Trump Organization has sold over 70% of its 286 condo-hotel units in the Trump International Hotel and Tower, and the Elysian will add another 183 condo-hotel units to the existing supply when development is completed in late 2007. Shangri-La Hotels and Resorts, a luxury hotel group in Asia, was recently selected to manage the 200-room condo-hotel within the Waterview Tower development. Other hotel properties undergoing a condo-hotel conversion include the Hotel 71, the Aldens Hotel, and the Hotel Blake.

Hotel Closings, Anticipated Openings, and Renovations

The following charts summarize selected major supply changes.

Hotel Closings in 2005

PROPERTY	LOCATION	UNITS	CLOSING DATE	COMMENTS
Howard Johnson	Oak Lawn	62	June 2005	
Arlington Inn	Arlington Heights	79	March 2005	
Stadium Inn	Dekalb	59	January 2005	

Major Renovations in 2006

PROPERTY	LOCATION	UNITS	SCHEDULED RENOVATION DATE	OWNER
The Drake Hotel	140 East Walton Place	537	Over two years	Hilton International
Ramada O'Hare Hotel	O'Hare International Airport	243	November 2005	Ramada
Hotel Indigo	1244 Dearborn	165	Ongoing	InterContinental Hotels
Hyatt Regency	151 Wacker Drive	2,019	Ongoing	Hyatt Hotels Corp.
Solis Hotel	71 Wacker Drive	454	June 2006	NAV

Planned Additions

PROPERTY	LOCATION	UNITS	SCHEDULED OPENING DATE	DEVELOPER/ OWNER
Westin Hotel Conference Center	Lombard	500	June 2006	Starwood Hotels & Resorts Worldwide, Inc.
Renaissance Hotel Convention Center	Schaumburg	500	July 2006	Village of Schaumburg
The Waterview Hotel	111 W. Wacker Drive	190	May 2007	Waterview LLC

PROPERTY	LOCATION	UNITS	SCHEDULED OPENING DATE	DEVELOPER/ OWNER
Elysian Hotel & Residences	912-920 North Rush Street	183	June 2007	Elysian Development Group LLC
Westin North Shore	Wheeling	440	January 2008	Starwood Hotels & Resorts Worldwide, Inc.
Trump Tower Chicago	401 North Wabash Avenue	461 condo units; 227 condo-hotel units	April 2008	Trump Organization

Major Transactions in 2005

Due to indications that the Chicago hotel market is improving (increased occupancy, ADR, and RevPAR), 2005 was another record year for hotel transactions. The largest hotel sale in Chicago history (largest by total sales price) occurred when the 1,169-room Palmer House Hilton was sold to Thor Equities for $230 million ($196,750 per room). The second-largest transaction of the year was the sale of the 692-room Fairmont Chicago. The $154.7 million ($223,555 per room) paid by Strategic Hotel Capital to the Swig Company for the Fairmont represented the third-largest deal in Chicago history. Strategic also purchased the 807-room Hotel InterContinental from InterContinental Hotels for $170 million ($210,000 per room). In March, Boykin Lodging and its joint venture partner, AEW Capital Management, sold the 454-room Hotel 71 for $95 million ($209,000 per room). Other transactions completed in 2005 include the sale of the 324-room Lenox Suites by North Rush Street Advisors to James Hotels for an undisclosed amount and Kimpton Hotel & Restaurant's sale of the 192-rooom Hotel Monaco to Prudential Financial for $28 million ($145,835 per room). The 525-room Westin O'Hare Hotel was acquired by JER Partners for $106 million (approximately $201,905 per room) and the 398-room Chicago Marriott Schaumburg sold to Strategic Hotel Capital, Inc. for $23.9 million (approximately $60,050 per room). In October, White Lodging Corporation announced that they were in discussions with buyers interested in acquiring their hotel portfolio consisting of 87 properties, which would include the Hilton Garden Inn and Courtyard by Marriott hotels located in the downtown Chicago area.

Political/Economic/Legal Changes

Despite improvement in the national economy, Chicago failed to realize the job growth that many other metropolitan areas experienced. According to the Illinois Department of Employment Security, over the past 12 months as of October, Chicago has gained approximately 41,900 new jobs, a 1.1% increase.

After months of negotiations, the Chicago convention industry and union leaders agreed to take measures to make McCormick Place more cost-competitive with other convention destinations such as Las Vegas and Orlando. The Metropolitan Pier and Exposition Authority (MPEA), which owns and operates McCormick Place, believes that the agreement addresses most of the major categories of concern to McCormick Place's customers such as extended hours when they pay straight-time wages and new rights to perform their own work. The MPEA believes that the agreement will help the venue to retain conventions that might otherwise switch locations.

regions and markets

dallas

DALLAS

Introduction

In the last several years, Dallas has experienced strong competition from other in-state convention destinations, such as Houston and San Antonio, resulting in a decline in group demand. Though the gloomy convention market has been blamed as the key factor causing the lag in hotel business, there has been a temporary surge in occupancy levels since September 2005 from New Orleans' hurricane evacuees.

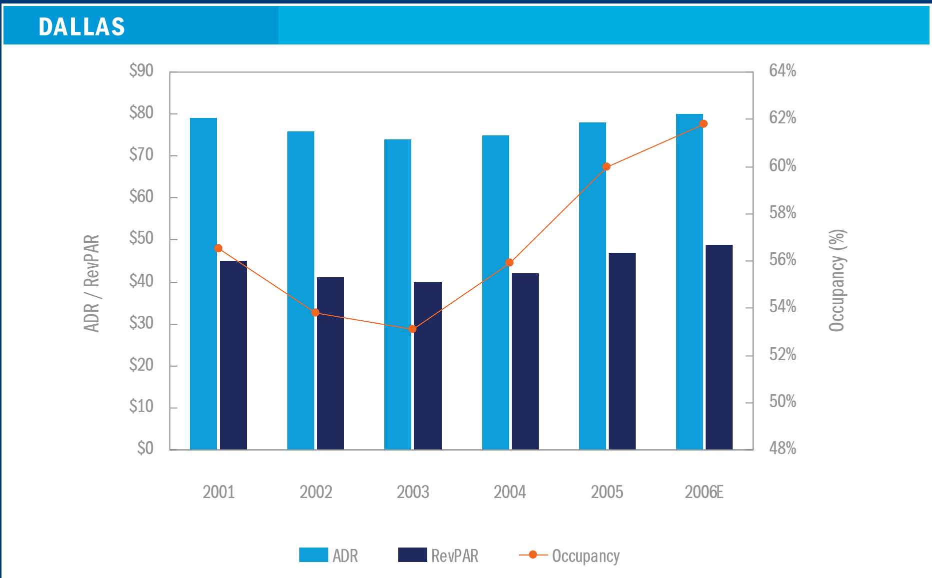
While still below the market's peak occupancy level of 64.6% in 2000, hotel occupancy in Dallas is anticipated to reach 60.0% by year-end 2005, an increase of 4.1 percentage points over 2004 based on year-to-date November 2005 data provided by Smith Travel Research. ADR is anticipated to increase by 4.5% to $78. The increases in occupancy levels and room rates result in a RevPAR increase of 12.0% to $47, approximately $6 below the RevPAR peak achieved in 2000.

The optimistic economic environment is anticipated to propel positive performance, helping Dallas to improve infrastructure, diversify tourism attractions and amenities, and draw business and leisure travel demand. According to Smith Travel Research, the lodging supply is anticipated to add approximately 790 rooms in 2006. Occupancy levels are anticipated to increase 1.8 percentage points to 61.8%, while ADR is anticipated to increase 2.5% to $80, resulting in a RevPAR increase of 5.6% to $49.

Market Strengths

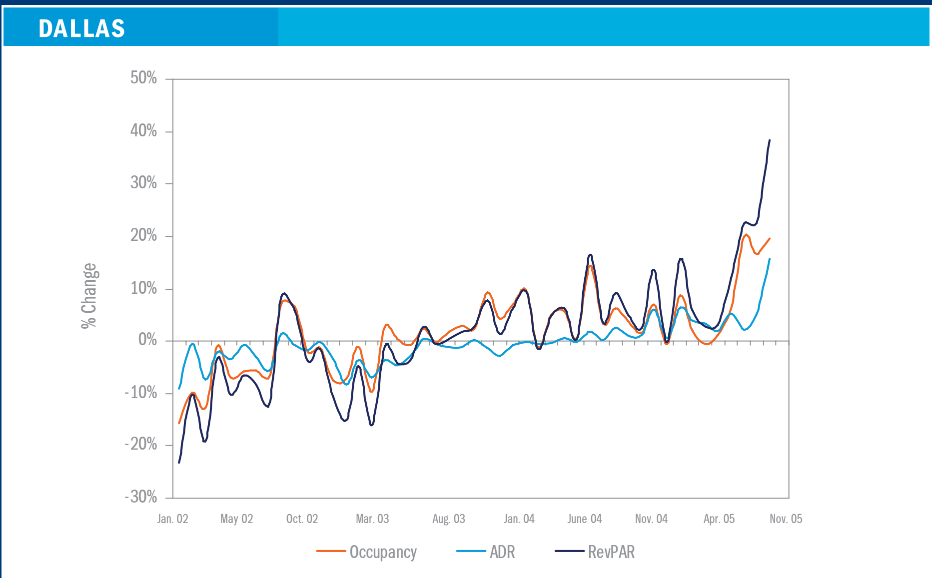
The Dallas lodging market benefits from the Dallas/Fort Worth MSA being a major transportation hub within Texas. According to the Dallas Convention and Visitor Bureau, the Dallas metropolitan area is the top visitor and leisure destination in Texas and the third most popular domestic business travel destination in the United States. The destination offers visitors a full array of cultural, historical, entertainment, and recreational amenities. To support this demand, Dallas continuously enhances its infrastructure and facilities, such as the Dallas Convention Center, Dallas Area Rapid Transit, and Dallas/Fort Worth International Airport (DFW).

Lodging Market Occupancy, ADR, RevPAR Performance



Source: Smith Travel Research

Lodging Market Change in Monthly Occupancy, ADR, RevPAR Performance



Source: Smith Travel Research

Market Challenges

Dallas has long been perceived as a difficult destination to navigate for visitors, and requires significant travel by road. Meeting planners hesitate to schedule large meetings in Dallas primarily due to lack of a convention headquarters hotel and inconvenient accessibility within the city. Compared to other competitive destinations, Dallas generally lacks a thriving downtown district and a cultural/performing district.

Demand Changes

Being the sixth-busiest airport in the world, DFW has recently completed a $2.7 billion expansion, doubling its capacity to 250 gates, by adding a new 1.8 million square-foot international terminal. With the 21 domestic gates left vacant by Delta Airlines, DFW has been courting new carriers to serve the destination. In October 2005, American Airlines and American Eagle began service to 32 international destinations from Terminal D. In addition, Spirit Airlines will become the sixth low-fare carrier to serve the Dallas/Fort Worth region, with non-stop service to Fort Lauderdale-Hollywood International Airport. In 2004, DFW International received 59.4 million passengers, including 5.1 million international passengers. The airport is anticipated to increase from its current level of 650 million enplanements to almost one billion enplanements by 2009. International air travel is anticipated to reach 250 million enplanements by 2010.

The $125 million expansion of the Dallas Convention Center was completed in early 2004 and now the facility offers 1.34 million square feet of exhibit space. In 2004, New Orleans was the fifth-most-popular destination for large trade shows, while Dallas was the eighth. Post Hurricane Katrina, the New Orleans Convention and Visitor Bureau is working closely with cities such as Dallas, San Antonio, Memphis, and Orlando to discuss the possibility of switching trade show schedules. Consequently, hotels in Dallas are seeing higher occupancy levels and rising rates as a result of the displacement from New Orleans and the Gulf Coast. In addition, the 1,000-room Marriott Convention Hotel and expansion of Dallas Area Rapid Transit is anticipated to draw even more convention/meeting groups. Though the lodging development pipeline indicates a modest increase in supply for the next three years, Dallas is eager to attract more globally renowned hotel brands to join the market. The city of Dallas and downtown hotel operators are working together to create a cohesive lodging accommodation network in the downtown area (CBD, Market Center, and West End) for the neighboring Dallas Convention Center to attract more groups. With improved transportation infrastructure, expanded convention facility, and hotel room additions, Dallas is anticipated to experience a growth in convention demand.

In the last six years, the local public and private sectors together have invested several hundred million dollars to revitalize the downtown area, primarily the Thanksgiving Square and

Main Street areas. The city has invested over $108 million to transform downtown's historic Main Street to be a 24-hour entertainment spot thriving with dining, shopping, and nightlife, targeting both visitors and local residents. New loft apartments and condominiums bring a refreshed look to the old neighborhood. To highlight local culture and attract world-class visual/performing arts to the city, Dallas is implementing a $275 million project to create a new arts/cultural center near Thanksgiving Square in the Central Business District, to be completed in 2009. The Margot and Bill Winspear Opera House, the Charles and Dee Wyly Theatre, and three other venues together will comprise the Dallas Center for Performing Arts.

Downtown Dallas's Trinity River and its surrounding parks and forests will be transformed into an environmentally friendly recreation and entertainment area, including performing spaces, two lakes, hike-bike trails, and a forest larger than New York City's Central Park. The 25-acre Trinity Crossing development project is scheduled to complete its first phase in December 2007, featuring a 45,000-square-foot live music venue. A second phase is to feature an equestrian center for quarter-horse racing, a polo field, stables, luxury condominiums, a boutique hotel, and recording studios.

While there are more than 200 corporate headquarters and regional offices located in the city of Dallas, the local real estate market is also growing to meet the demand. More than ten major developments are currently in progress in the Uptown district, primarily consisting of apartments, condos and townhouses. Demand for development sites is so strong that land costs are exceeding $70 per square foot, even higher than the CBD. While most of the current construction activities are mixed-used developments with a residential component, the next development trend is anticipated to involve more hotels, retail/entertainment venues and office buildings. The lodging pipeline for the Uptown district continues to shift towards the luxury and upscale segments, such as the Ritz-Carlton, Palomar Hotel at Mockingbird Station, and Hillcrest Hotel. In addition, Victory Park, the first master-planned community in Dallas, is currently under construction near the American Airlines Center, targeting a 2008 completion date with various portions set to open next year. This $3 billion mixed-use development will include a 33-story W Hotel & Residences and other office, retail and residential components. The community is anticipated to invigorate the west side of Dallas and become a transition zone to connect the uptown and downtown areas.

As the real estate market is heating up in Dallas, developers are also planning/constructing office buildings and residential units in the suburbs. For instance, the Solana project, a 900-acre site in Southlake, situated northwest of DFW, is being constructed in phases as a mixed-use development. Companies such as First America Corp., IBM, Lucent, McKesson Corp, Pfizer, Sabre, Verizon Wireless, and Wells Fargo will relocate their Dallas offices to Southlake from the Dallas downtown area in 2006. The 500-room InterContinental Wildflower is currently under construction in the city of Grand Prairie, targeted to be completed in July 2007. The Dallas Cowboys have proposed to build a new $650 million stadium in the city of Fair Park, scheduled for completion in 2009. Overall, it is anticipated that more commercial developments will take place in the suburban areas.

Supply Changes

At present, Dallas encompasses more than 70,700 hotels rooms and approximately half of the hotel room inventory is located in the city of Dallas. The luxury and upper upscale segments, including both chain and independent brands, represent approximately 28% of the total hotel rooms in the city.

The 298-room Grand Hyatt Dallas/Fort Worth International Airport, targeting corporate executives, was a hotel redevelopment and opened in July 2005. The property is located adjacent to the airport and features 34,000 square foot of meeting space. In November 2005, the 52-room boutique Hillcrest Hotel, located steps away from Southern Methodist University, was also a hotel redevelopment. Other newly opened hotels in the Dallas suburbs include the 122-room Springhill Suites (opened in October 2005), the 102-room Baymont Suites and Inn (opened in November 2005), the 77-room Fairfield Inn & Suites Denton (opened in November 2005), and the 70-room Holiday Inn Express Hotel (opened in November 2005). Overall, the Dallas market is anticipated to add 790 rooms in 2006, with three upscale/luxury hotels to be opened in the city of Dallas.

Hotel Closings, Anticipated Openings, and Renovations

The following charts summarize selected major supply changes.

Planned Additions

PROPERTY	LOCATION	UNITS	SCHEDULED OPENING DATE	DEVELOPER/ OWNER
Joule Urban Resort	CBD/West End	124	2006	deLuxe Hotel Group
Palomar Hotel at Mockingbird Station	Uptown	185	April 2006	Kimpton
W Dallas Victory Hotel & Residences	CBD/West End	251	July 2006	Starwood Hotels & Resorts Worldwide and Hillwood Capital

PROPERTY	LOCATION	UNITS	SCHEDULED OPENING DATE	DEVELOPER/ OWNER
Eureka Hotel	CBD/West End	108	January 2007	Eureka Holdings
The Ritz-Carlton Hotel & Residences at the Ritz-Carlton, Dallas	Uptown	217	June 2007	Ritz-Carlton Hotel Company and Crescent Real Estate Equities
InterContinental Wildflower	Grand Prairie	500	July 2007	Tyee International
Four Seasons	Irving	40	NAV	NAV
Homewood Suites	Irving (near DFW)	77	January 2006	NAV
Holiday Inn & Suites	Denton	153	July 2006	NAV

Major Transactions in 2005

The Dallas hotel market had several major hotel transactions in 2005. UBS Realty Investors acquired the 432-room Westin Galleria in Far North Dallas for $95 million ($220,000 per room). The hotel tower is attached to the Dallas Galleria shopping mall, which UBS bought in 2002 for $300 million. UBS will renovate and continue to manage the hotel, which opened in 1982. Carlson Hotels Worldwide acquired full ownership of the 226-room Radisson Hotel Dallas North from Olympus Real Estate Partners, a co-owner of the hotel. The property will continue to be managed by Carlson Managed Hotels & Resorts. Other transactions included the Comfort Inn, which was sold for $2.95 million (approximately $41,200 per room), the AmeriSuites Dallas/Grand Prairie, which was sold for $4.65 million (approximately $34,400 per room) and the 429-room North Dallas Crowne Plaza Hotel, which sold for an undisclosed amount in late October.

Political/Economic/Legal Changes

With continuous development and expansion plans, DFW is anticipated to generate an estimated $34 billion impact on the North Texas economy and create 77,000 new jobs during the next 15 years. Dallas also offers a business friendly environment with no personal or corporate income taxation. The primary business tax is the Corporate Franchise Tax (a.k.a. Capital Values Tax). The local hotel/motel occupancy tax rate is anticipated to remain at 15% (6% for the state of Texas and 9% for the city of Dallas).

According to the Bureau of Labor Statistics, the Dallas Metropolitan Statistical Area (MSA)'s unemployment rate decreased to 4.8% in October 2005 compared to 5.6% in the corresponding period the previous year. The city's job market is anticipated to rebound in 2006, propelling the local economy even further. According to the North Central Texas Council of Governments and Downtown Dallas Improvement District, 160,900 people will work in the Downtown Dallas area by the year 2030, compared to the current level of 120,000 people.

The local government continues to improve infrastructure, diversify the local area economy, and create programs to provide incentives to prospective businesses. In order to make the city of Dallas more pedestrian-friendly, the government has spent more $5 million resurfacing roads and street landscape improvements. The city is also extending two Dallas Area Rapid Transit (DART) light rail lines, approximately 36 miles total, which are scheduled to be completed by 2011.

regions and markets

Fort Lauderdale

FORT LAUDERDALE

Introduction

Since first developed in the 1940s and 1950s, Greater Fort Lauderdale is undergoing a modern renaissance with its dynamic airport, bustling cruise port, new Upscale and Luxury segments hotels, and notable cultural and tourism-related events. Once considered a haven for student on spring break Fort Lauderdale has transformed itself from a marina and beach town to a full-fledged destination. With the construction of a number of condominiums and condominium-hotels, the dynamic of Fort Lauderdale is changing. The increasing residential and lodging density is having a positive effect on establishments in the Riverwalk Arts & Entertainment District, which includes restaurants, galleries, shops and nightclubs. In addition, the city continues to attract top-rated events like the King Tutankhamen museum tour and the annual boat show.

Fort Lauderdale's lodging performance in 2005 surpassed 2004, with success attributed in part to convenient airlift from low-cost carriers, and the construction of new hotels, as well as an improving U.S. economy. Based on September year-to-date Smith Travel Research data, Greater Fort Lauderdale is anticipated to experience an 11.5% RevPAR increase to $74 in 2005, a new record resulting from a 1.5 percentage point increase in occupancy to 74.1% and a 9.3% increase in ADR from $91 to $100.

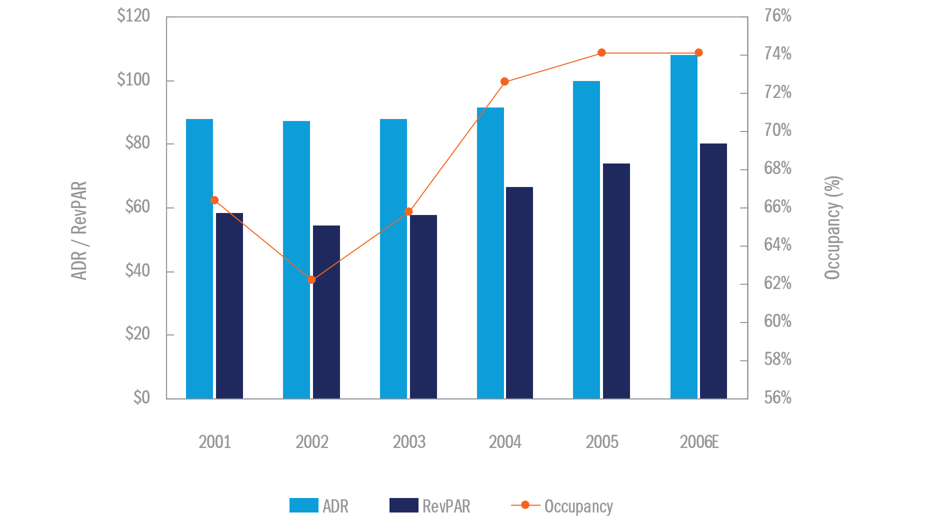
Fort Lauderdale is anticipating visitation growth from domestic and international travelers in 2006 to absorb the new supply. In 2006, market occupancy is anticipated to remain unchanged at 74.1%, while ADR is anticipated to increase by 8.0% from $100 to $108, resulting in an 8.0% RevPAR increase.

Market Strengths

Fort Lauderdale is unique due to its 300 miles of inland waterways and is often referred to as the Venice of America. Through significant upgrades to its lodging inventory, cruise port capability, increasing attractions, and availability of low-cost air carriers, it is taking solid aim at Miami. Indeed, its value perception versus Miami has directly contributed to growth in the lodging, residential, and airline sectors.

Lodging Market Occupancy, ADR, RevPAR Performance

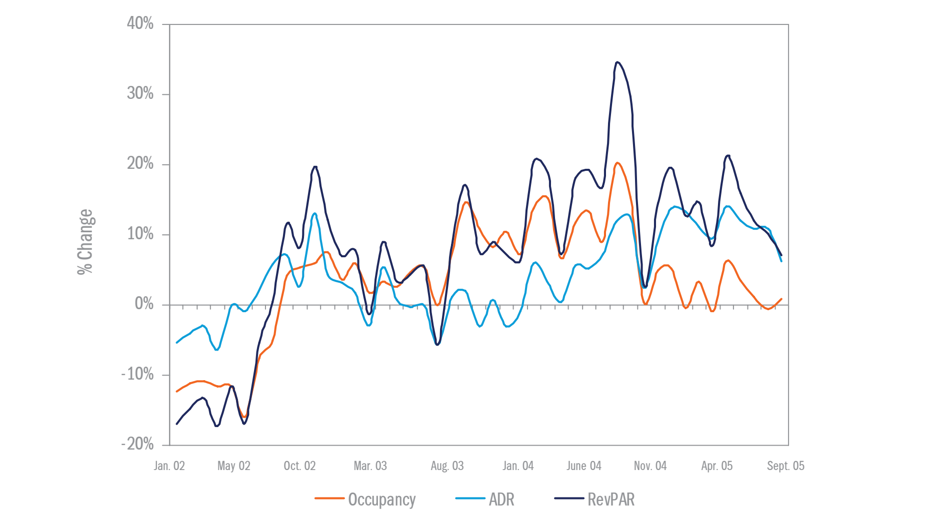
FORT LAUDERDALE



Source: Smith Travel Research

Lodging Market Change in Monthly Occupancy, ADR, RevPAR Performance

FORT LAUDERDALE



Source: Smith Travel Research

Market Challenges

Fort Lauderdale-Hollywood International Airport (FLL) is nearing its maximum capacity with delays becoming the norm rather than the exception; additionally, its limited international air access restricts its competitiveness globally. The city is continuing to find it difficult to attract large city-wide meetings with many larger hotels reducing room-block numbers due to improving lodging fundamentals or departing completely from the market to make way for other developments.

Demand Changes

Convention center and meeting room night activity have grown significantly from 86,000 in 1995 to 700,000 in 2004. Future activity growth appears tempered as market participants stated that the city is being turned away from hosting many key convention center events because it lacks a convention center hotel. In addition, it has lost several area hotels to condominium and condominium-hotel development. Talks are underway to improve meeting activity by building a 750-room convention center hotel as well as carving out the center from the Port Everglades zone, thereby reducing the need for attendees to pass through security check points for entry into the area.

Port Everglades, with 50 cruise ships, is the winter home port for the Queen Mary 2, and is the busiest passenger cruise port in the world. It showed 12% annual growth over the last decade with 4 million passengers passing through in 2004, and 7 million anticipated by 2020. As 10% of cruise passengers typically spend one pre- or post-cruise hotel night in the city, the future growth should have a positive impact on area lodging fundamentals.

With airport traffic more than doubling in the last decade, FLL, home base to many discount carriers, is currently on an expansion plan to include a second runway anticipated for 2011. Talks are underway for a third runway, as well as a new international terminal, five-gate concourse, and a separate facility to handle cruise passengers. With air traffic anticipated to grow at almost 4% annually for the next 15 years, and 11% growth alone in year-to-date October 2005, the expansion will be necessary to ensure that FLL can regain its title of being the nation's most-convenient instead of the most delay-prone airport. However, increases in air passenger traffic may not be fully correlated with the city's lodging performance, as many passengers continue to Miami or cruise ships in Port Everglades.

Although South Florida's 2005 hurricane season did not receive as much press as some other regions, there may be some longer-lasting lodging impact on the region. Hurricanes were once considered an August and September phenomenon, yet Hurricane Wilma battered many parts of South Florida in October, including Fort Lauderdale, with some hotels, in whole or in part, out of business for weeks to months – in addition to key tourism events being postponed or canceled. Some fear that people who plan conventions and corporate meetings, and often book years in advance, will be more hesitant when booking events during an expanded hurricane season. This would be especially damaging to the month of October, which has traditionally been the start of peak-season rate ramp-up. Occupancy, however, was not severely impacted during 2005's hurricane season as the loss of transient lodging demand was offset by a boost from relief workers.

Supply Changes

With a wave of seven new hotels recently opening, including The Atlantic and the Seminole Hard Rock Hotel & Casino, and with those under construction, including the St. Regis condominium-hotel, W Hotel & Residences, and Trump International Hotel & Tower, the Greater Fort Lauderdale lodging market is undergoing a transformation that should help to establish and enhance the cache of the destination while also bringing some competitive pressures to the current supply. It is important to note that all the Upscale and Luxury supply coming on line in the immediate future has a condominium component attached, like many other Florida destinations.

Hotel Closings, Anticipated Openings, and Renovations

The following charts summarize selected major supply changes.

Hotel Closings in 2005

PROPERTY	LOCATION	UNITS	CLOSING DATE	COMMENTS
Merrimac Beach Hotel	Fort Lauderdale Beach	57	January 2005	Demolished to make way for the Trump International Hotel & Tower
Ocean Hacienda Inn	Fort Lauderdale	39	January 2005	
Coral Ridge Inn	Fort Lauderdale	144	February 2005	
Mardi Gras Motel	Fort Lauderdale	16	April 2005	
Rolling Hills Resort (Best Western)	Fort Lauderdale	215	June 2005	
Ocean Terrace Suites	Deerfield Beach	27	June 2005	

Major Renovations in 2006

PROPERTY	LOCATION	UNITS	SCHEDULED RENOVATION DATE	OWNER
The Wyndham Resort & Golden Door Spa (formerly, Bonaventure Resort & Spa)	Weston	496	Complete Summer 2006	The Ireland Companies
Hyatt Pier 66	Fort Lauderdale	388	Complete January 2006	LXR Resorts (an affiliate of The Blackstone Group)

Planned Additions

PROPERTY	LOCATION	UNITS	SCHEDULED OPENING DATE	DEVELOPER/ OWNER
St. Regis Condominium Hotel	Fort Lauderdale Beach	166	March 2006	Castillo Grande LLC
Hilton Fort Lauderdale Beach Resort	Fort Lauderdale Beach	327	Summer 2006	Coasta Dorada
Hollywood Grande Condominium Hotel & Resort	Hollywood Beach	148	Fall 2006	Fabrizio Passalacqua
W Hotel & Residences	Fort Lauderdale Beach	346	December 2006	Colonial Development Group LLC
Candlewood Suites	Fort Lauderdale	71	December 2006	NAV
Trump International Hotel & Tower	Fort Lauderdale Beach	298	February 2007	Stillman Bayrock Merrimac LLC
Trump International Beach Club	Fort Lauderdale Beach	95	NAV	NAV

Major Transactions in 2005

Eight significant hotel transactions occurred in 2005. The 221-room Hilton Deerfield Beach was purchased by the opportunity fund CS Hospitality LLC from SLT Realty LP (an affiliate of Starwood Hotels & Resorts) in March 2005 for $15.4 million ($69,683 per room). Starwood Capital Group acquired a controlling stake in the Sheraton Yankee Trader and Sheraton Yankee Clipper in June 2005 from Gill Hotels for $89.8 million. Plans call for the 501-room Yankee Clipper to be remodeled while it is anticipated that the 457-room Yankee Trader will be razed to make way for a Westin Hotel.

As a part of a 30-hotel portfolio disposition, the 174-room Courtyard Weston was purchased for $26.2 million ($150,778 per room) in June 2005 by Ashford Hospitality Trust from CNL Hotels & Resorts. The 231-room Doubletree Fort Lauderdale was sold to Pyramid Hotel Advisors, LLC in July 2005 by Thayer Lodging Group. MHI Hospitality Corp. purchased the 309-room Ambassador Resort in Hollywood in September 2005 from MCZ Centrum Florida VI Owner, LLC, both for undisclosed sums.

The 383-room Wyndham Fort Lauderdale Airport was sold to Columbia Sussex Corp., along with 13 other full-service Wyndham hotels by Wyndham International (an affiliate of The Blackstone Group) in October 2005 for $92.2 million ($240,757 per room). Additionally, the 250-room Sheraton Fort Lauderdale Airport was sold to HEI Hospitality, LLC for $31.95 million ($127,800 per room).

Political/Economic/Legal Changes

The Florida Hotel Association has announced that it will be merging with the Florida Restaurant Association to become the Florida Restaurant and Lodging Association. Operators fear that they have lost a strong, single-voiced ally for favorable state legislation and that this may have serious implications to upcoming regulatory issues. With South Florida's housing prices having more than doubled in the last five years, it is becoming increasingly difficult to find affordable housing, especially for line-level employees and entry-level management. This situation may prove challenging for lodging operations to be able to attract, recruit, and retain qualified staff.

The construction boom facing South Florida as well as the recovery efforts of hurricane-related damage throughout the Southeast is providing for a shortage of construction crews as well as the sometimes hard to fathom dramatic increase in the cost of construction materials, which is making it difficult for hotel owners/developers undergoing or planning construction or renovation projects. This may benefit the current marketplace by slowing the growth in the over-heated condominium market and help to restrain hotel growth, thereby prolonging this cycle's improving fundamentals. Conversely, it may prove to be a catalyst that may slow the necessary progress for Fort Lauderdale to continue to evolve into an upscale destination.

regions and markets

hawaii

HAWAII

Introduction

Hawaii's economy is experiencing a significant amount of growth. With record low unemployment rates and continued increases in gross state product, economic drivers other than tourism, particularly real estate and construction, are now playing key roles. Year-to-date October 2005 figures indicated that approximately 6.2 million passengers have traveled to Hawaii representing an increase of approximately 6.9% versus the corresponding period the previous year. This trend results from significant increases of both domestic travel and travel from Canada, coupled with an approximately 3.3% increase in travel from Japan.

Hawaii's lodging market demonstrated positive lodging fundamentals in 2005. Based on year-to-date November data, ADR in 2005 is anticipated to increase by 9.6% from $151 to $165. Occupancy is anticipated to increase by 3.3 percentage points to 81.1%, resulting in a RevPAR increase of 14.2%, from $117 to $134.

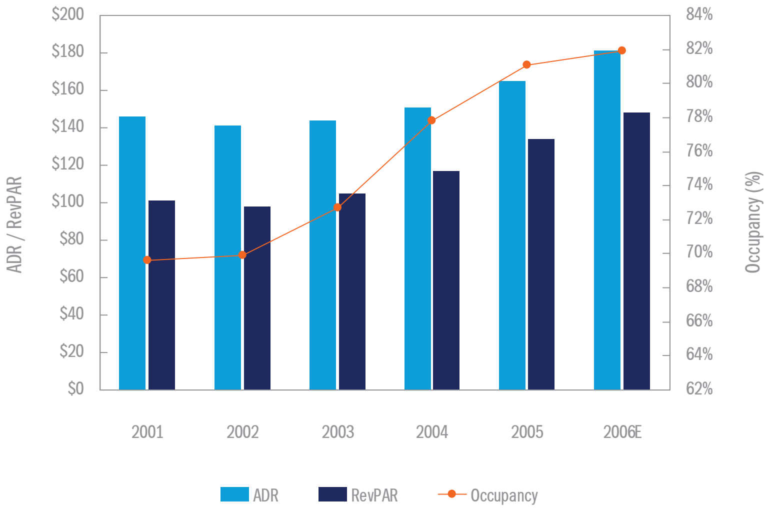
Hotel development, conversions of hotels to condominiums, and a continued demand for rooms are promising signals as the market is anticipated to continue to improve at a steady rate. In 2006 occupancy is anticipated to increase by 0.8 percentage points to 81.9%, while ADR is anticipated to increase 9.5% from $165 to $181, resulting in a RevPAR increase of 10.6% from $134 to $148.

Market Strengths

Hawaii's strong brand awareness among travelers, and the commitment of the local government to market the islands' many attractions has continued to increase the number of visitors to Hawaii. Additionally, with weak exchange rates and the continued Japanese economic recovery, Hawaii is anticipated to continue to experience strong overseas visitation. Furthermore, with its increased popularity with investors, continued increases in visitation, and its reputation as a safe destination, Hawaii's fundamentals are anticipated to continue to improve in 2006.

Lodging Market Occupancy, ADR, RevPAR Performance

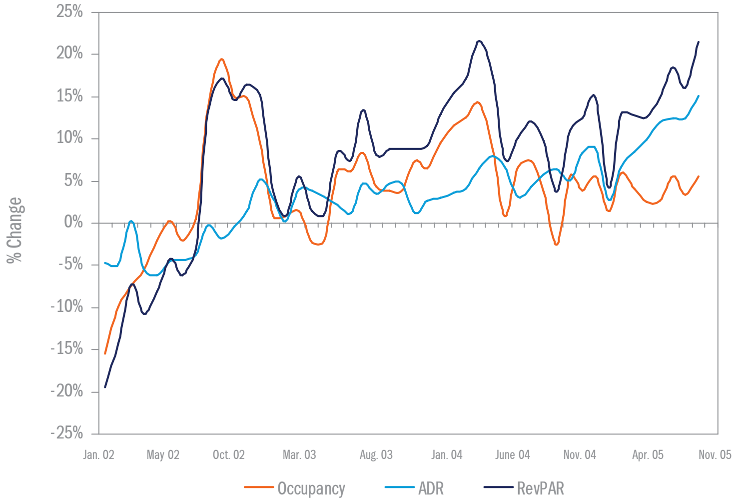
HAWAII



Source: Smith Travel Research

Lodging Market Change in Monthly Occupancy, ADR, RevPAR Performance

HAWAII



Source: Smith Travel Research

Market Challenges

Escalating operating costs, increased airfare, and overall satisfaction of the traveler is becoming a concern for authorities as an increasing number of travelers are placing more pressure on Hawaii's limited resources. Further, union contracts in Hawaii are up for renegotiation in late 2006, which continues to be a concern for the lodging industry.

Demand Changes

Hawaii's tourism market exhibited record achievement in 2005. Along with an increase in the number of visitors, visitor spending increased as well. Year-to-date through October 2005 visitor spending increased 8.3% to approximately $9.5 billion versus the same period the previous year. During the same period, the number of visitors to Hawaii was 6.2 million, representing an increase of approximately 6.9% in comparison to the same period the previous year. The Hawaii Department of Business, Economic Development and Tourism (DBEDT) anticipates that the number of visitors to Hawaii will increase to approximately 8 million by 2008 from an estimated 6.9 million visitors in 2004.

As of September 2005, year-to-date figures indicated an increase of approximately 4.3% in visitation from Japan, versus the same period the previous year, as well as an increase of 7.8% and 6.1% in visitation from the Western and Eastern United States, respectively.

Cruise lines continue to be the fastest growing aspect of Hawaii's tourism industry. As of October 2005, approximately 247,000 visitors arrived in Hawaii to board inter-island cruise ships in 2005, representing an increase of approximately 32.8% versus the same period the previous year. An increasingly popular cruise industry means visitors may opt for ocean-based accommodations over hotels, and cruise ship passengers departing from Hawaii ports may take air seats historically used by land-based guests. The Hawaii Office of State Tourism Liaison believes there has been no negative impact to date. As cruises gain popularity, the key variable will be the ability to increase airlift to Hawaii to avoid any impact on the lodging sector. Despite the continued upward pressure on airfares, the total number of visitors arriving to Hawaii by air year-to-date through September 2005 was approximately 5.6 million, representing an increase of approximately 7.1% versus the same period the previous year. The cost of inter-island travel has remained relatively high despite recent changes in airfares. International air travel also continued to increase with international visitation year-to-date through August increasing 6.5% in comparison to the same period the previous year, bringing the number of international visitors to approximately 1.3 million.

SMG, manager of the Hawaii Convention Center, is attempting to eliminate the perception that Hawaii is an unfavorable destination for business conventions. As of year-to-date August 2005, large conventions brought approximately 600,000 visitors to Hawaii, representing an approximately 7.1% increase versus the corresponding period the previous year. Additionally Hawaii Convention Center officials have recently been approached by meeting planners in attempts to move events from New Orleans and other areas affected by natural disasters. At $69 million, Hawaii has the largest tourism budget of any state in the nation, approximately $21 million more than Illinois, the state with the second largest tourism budget. Similar to previous years, Hawaii Tourism Authority (HTA) is anticipated to spend approximately $50 million of its budget towards promoting and marketing Hawaii in 2006.

Hawaii continues to be a popular choice for hotel and residential real estate investment. Spurred by both interest in second homes by individuals living on the mainland and the attention given to Hawaii's military bases, the University of Hawaii anticipates the construction industry will remain healthy over the next several years. In addition, numerous hotel transactions and conversions occurred in Hawaii throughout 2005. The recent trend of converting hotel rooms to condominium or condominium-hotel units has been fueled by the strong residential market, lack of condominium unit supply to meet demand, and low interest rates. This trend in conversions is anticipated to continue as long as interest rates remain low and returns from alternative investments remain comparatively low.

Supply Changes

Hawaii is anticipated to experience continued development and conversion of numerous hotels into condominiums, thereby decreasing the overall supply of available hotel rooms. Year-to-date through September 2005, approximately 1,800 hotel rooms were either converted or closed in Hawaii, including the closing and conversion of Ohana hotels, and the conversion of some Luxury Collection and Preferred Hotel rooms. This trend, coupled with limited supply anticipated to enter the market each year, is anticipated to continue and is estimated to benefit occupancy and ADR throughout Hawaii.

Hotel Closings, Anticipated Openings, and Renovations

The following charts summarize selected major supply changes.

Hotel Closings in 2005

PROPERTY	LOCATION	UNITS	CLOSING DATE	COMMENTS
Ohana Reef Towers	Waikiki, Oahu	478	January 2005	To be redeveloped as part of Waikiki Beach Walk project
Ohana Waikiki Tower	Waikiki, Oahu	438	April 2005	To be redeveloped as part of Waikiki Beach Walk project and open as an Embassy Suites
Ohana Waikiki Village	Waikiki, Oahu	442	April 2005	
Kapalua Bay – A Renaisance Resort	Kapalua, Maui	191	April 2005	To be razed and repositioned with an opening in 2009
Marriott Kaanapali	Kaanapali, Maui	275	May 2005	Partial closure to continue redevelopment to Marriott Maui Ocean Club
Ohana Waikiki Surf	Waikiki, Oahu	302	September 2005	To be redeveloped as a 404-room Wyland Waikiki Hotel
Ohana Waikiki Surf East	Waikiki, Oahu	102	September 2005	

Major Renovations in 2006

PROPERTY	LOCATION	UNITS	SCHEDULED RENOVATION DATE	OWNER
Waikoloa Beach Marriott Resort	Waikoloa, Big Island	545	March 2006	Blackstone Real Estate Advisors
Hilton Waikoloa Village	Waikoloa, Big Island	1,240	Early 2006	Hilton Hotels
Outrigger Reef on the Beach	Waikiki, Oahu	858	Mid 2006	NAV
Wailea Marriott Resort	Wailea, Maui	521	Summer 2006	Blackstone Real Estate Advisors
OHANA Islander Waikiki	Waikiki, Oahu	283	Late 2006	NAV
Sheraton Waikiki	Waikiki, Oahu	1,695	Late 2007	Cerberus Partners, LP

Planned Additions

PROPERTY	LOCATION	UNITS	SCHEDULED OPENING DATE	DEVELOPER/ OWNER
Coco Palms Resort	Lihue, Kauai	104	June 2008	Richard Weiser and Walt Petrie
Keaau Village Inn Hotel	Keaau, Kauai	60	Construction Summer 2006	Keaau Hospitality Group
Honua Kai Condo-Hotel Resort	Kaanapali, Maui	700	2009	Intrawest Corporation.
Unnamed at Aloha Tower	Honolulu, Oahu	250	Planning Stage	UC Urban
Palamanui Mixed-Use Development	Kailua-Kona, Big Island	120	Planning Stage	Hiluhilu Development LLC
Ritz-Carlton Ko Olina	Ko Olina, Oahu	250	Planning Stage	Jeff Stone
Hilton Hawaiian Village Waikikian Timeshare	Honolulu	400	2008	Hilton Hotels Corporation
Grand Ko Olina Resort Hotel & Spa	Ko Olina, Oahu	1,000	Planning Stage	Jeff Stone

Major Transactions in 2005

Oahu was Hawaii's most active island in terms of transactions in 2005, beginning with the sale of the 480-room Ohana Reef Towers by Outrigger Enterprises, Inc. to Fairfield Resorts, Inc in January. The 252-room Princeville Resort – Luxury Collection was sold by Suntory Limited to Princeville Associates, LLC for $161 million (approximately $639,000 per room) in March. The 716-room Aston Waikiki Beach Hotel was sold in June by Leucadia National Corporation to Gaylord Entertainment Company for $107 million (approximately $150,000 per room). Also in the first half of 2005, the 364-room Kahala Mandarin Oriental was purchased in June by a subsidiary of Trinity Investments from Kahala Hotel Associates LLP for $242.5 million (approximately $666,000 per room).

In the second half of 2005, the 540-room Fairmont Orchid was sold in July for $216 million (approximately $400,000 per room). In August, Outrigger Enterprises purchased the 500-room Waikiki Beachcomber Hotel from Kahaone Investment Corporation, an affiliate of Tokyo-based Mitsui Leasing & Development Limited. The 1,310-room Waikiki Beach Marriott was sold for $279 million (approximately $213,000 per room), by WBM Resort LP and CNL Hotels & Resorts to Whitehall Street Global Real Estate Limited Partnership 2005, a fund managed by Goldman Sachs. In October, Outrigger Enterprise Incorporated purchased the 500-room Waikiki Beachcomber Hotel from Mitsui Leasing and Development for an undisclosed amount.

Political/Economic/Legal Changes

The increase in international tourism can be attributed to the weakening dollar, as current exchange rates remain low in comparison to rates at the beginning of the decade. This has lead not only to an increase in the number of Japanese tourists, but also to an increase in visitation from other international locations. Changes in passport policies to the Caribbean and other island destinations, and the continued safety concerns that travelers face with foreign locations, are anticipated to continue to positively affect the Hawaiian market.

The new passport policy, which was originally scheduled to begin December 31, 2005, is anticipated to commence its first phase by December 31, 2006. The policy requires all U.S. citizens traveling to or from the Caribbean as well as central and South America to have passports. The last phase of the policy is anticipated to take effect December 31, 2007, affecting travelers to/from Mexico and Canada. Although this extension does provide travelers time to obtain necessary documentation, in the future, last-minute travelers without passports will be unable to visit international tropical locations, which is anticipated to benefit domestic travel to Hawaii.

regions and markets

las vegas

LAS VEGAS

Introduction

In 2005, the Las Vegas lodging market continued to demonstrate that the additions to its supply are quickly absorbed, as visitation and overall lodging performance continue to improve. Throughout the prior year, the market benefited from an increase in domestic travel as well as increases in spending and investment in the area and increases in overall average daily room rates. Approximately 37 million people visited Las Vegas in 2004, and as of September 2005 the market was well on its way to surpassing this amount for 2005, with passenger traffic year-to-date through September at McCarran International Airport up 7.1% to approximately 33 million passengers, versus the same period in 2004. Lodging demand is anticipated to hold strong in 2005, due to anticipated increases in convention and leisure demand. The Las Vegas Convention and Visitors Authority (LVCVA) anticipates Las Vegas to achieve visitation of approximately 43 million by 2009.

In 2005, the Las Vegas lodging and gaming fundamentals improved significantly relative to 2004. According to the LVCVA, though overall lodging occupancy levels increased only marginally year-to-date through September, to 90.2%, representing an increase of 0.6 percentage point versus the same period last year, ADR increased significantly to $102, representing an increase of 14.8% over the same period last year. Additionally, total gaming revenue for Clark County (which includes the gaming cities of Las Vegas, Mesquite, Primm, and Laughlin) year-to-date through September 2005 reached approximately $7.2 billion, representing an increase of 10.8% over the same period last year, with many gaming companies achieving significant year-over-year income gains as of the third quarter of 2005.

Market Strengths

Las Vegas is anticipated to continue to benefit in 2006 due to anticipated increases in leisure demand. Las Vegas is also anticipated to benefit from an increase in convention demand over the next several years as citywide convention space is anticipated to expand by approximately 1.5 million square feet by 2010 and conventions from locations such as New Orleans are relocated.

Market Challenges

Though Las Vegas lodging fundamentals are anticipated to continue to improve, the city's primary challenge in the coming years is the threat of over-building, with over 23,000 rooms in various stages of development and planning, 2,000 of which are anticipated to enter the market in 2006. As a significant amount of new lodging supply is Upper Upscale- and Luxury-oriented, a less diversified lodging market may deter price sensitive demand though few to no indications of such a trend have occurred as of yet. Additionally, the potential exists for the market to become oversaturated with new condominium-hotel developments.

Demand Changes

The LVCVA's budget is anticipated to be approximately $188 million during its fiscal year 2006, representing a 3% increase from the previous year. The budget increase is driven primarily by an increase in room rates and the subsequent increase in room taxes. Room taxes, which fund approximately 81% of the LVCVA's budget, are anticipated to reach approximately $351 million during fiscal year 2006, due primarily to the additions to lodging supply. The LVCVA is anticipated to spend approximately $80.1 million of its spending budget to advertise the city to convention planners and leisure travelers, representing an increase of 2% from the $78.6 million for fiscal year 2005. Las Vegas spends the most of any city or state on advertising. Hawaii's budget ranks second with approximately $56 million of its spending budget used towards advertising for fiscal year 2005.

The Las Vegas Convention Center (LVCC) is anticipated to undergo an expansion and upgrade of its existing facilities over the next several years. The approximately $400 million renovation is anticipated to update and modernize the nation's third-largest convention facility. Proposals, one of which is anticipated to be finalized by year-end 2005, include the addition of up to 750,000 square feet of space, while others include the renovation and reorganization of the meeting space within the existing center. Construction on the center could begin as early as the second quarter of 2006.

Las Vegas's convention center market continues to expand as demand for conventions increases and Las Vegas continues to be an attractive destination for convention planners. The city benefits from a significant amount of existing convention space and hotel rooms located within the city and easy air access. The city is anticipated to further benefit from the relocation of conventions from New Orleans after the damage from Hurricane Katrina. Besides the LVCC expansion, the Wynn Las Vegas opened in April 2005 with approximately 200,000 square feet of meeting space and the South Coast Hotel & Casino is anticipated to open in early 2006 with approximately 150,000 square feet of meeting space. Other anticipated expansions to meeting space include the 450,000 square foot addition to the Sands Exposition and Convention Center at the Venetian upon completion of the Palazzo in 2007 and the addition of approximately 150,000 square feet of meeting space at the Cosmopolitan in early 2008. Las Vegas hosted 38 of the top 200 trade shows in 2004.

The anticipation of new significant lodging developments continues to exist as new developments continue to break ground and a new form of entertainment destinations continue to be developed. Significant developments include the $1 billion, 3,000-room Cosmopolitan, which broke ground in October 2005 and is anticipated to near completion in early 2008; the $2 billion Hard Rock Hotel expansion, which is anticipated to include both condominium-hotel and residential units; the $3 billion Las Ramblas project being developed by Centra Properties and Related Las Vegas on Harmon Avenue, which is anticipated to include 300 hotel rooms, approximately 1,300 condominium-hotel units and nearly 3,000 residential units; and the $5 billion MGM Project CityCenter, which is anticipated to surround the Cosmopolitan on 66 acres south of Bellagio. Approximately $15 billion of new development is anticipated to enter the Las Vegas market within the next five years, with most of that development consisting of new entertainment/lodging destinations, often including hotel, condominium-hotel, retail, gaming, restaurant, and entertainment components, as well as a recently popular trend of significant residential aspects.

Supply Changes

Las Vegas experienced a significant amount of development activity in 2005, particularly of condominium-hotels and large-scale resort, gaming, and entertainment destinations. Prompted by the opening of the $2.7 billion, 2,716-room Wynn Las Vegas in April 2005, new development is anticipated to continue through 2010 as significant developments continue to enter the pipeline, with over 23,000 hotel rooms in various stages of development and planning, according to the Las Vegas Convention and Visitors Authority. Several significant projects are anticipated to enter the market in 2006, including the 347-room expansion of the Palms Hotel and Casino and the first tower of the Residences at MGM Grand, one of the first condominium-hotels anticipated to open in Las Vegas in the coming years.

Hotel Closings, Anticipated Openings and Renovations

The following charts summarize selected major supply changes.

Major Renovations in 2006

PROPERTY	LOCATION	UNITS	SCHEDULED RENOVATION DATE	OWNER
San Remo Casino	115 East Tropicana Avenue	NAV	February 2006	Hooters Casino Hotel
Planet Hollywood Resort & Casino (Timeshare Tower)	3667 Las Vegas Boulevard South	800	Late 2007	Planet Hollywood Resort & Casino

Planned Additions

PROPERTY	LOCATION	UNITS	SCHEDULED OPENING DATE	DEVELOPER/ OWNER
South Coast Hotel & Casino	Las Vegas Boulevard South & Silverado Ranch Boulevard	685	Early 2006	Coast Resorts Incorporated
Resort Magic Timeshare	99 Convention Center Drive	424	Early 2006	USA Investment Partners
Palms Casino Resort Expansion	4321 West Flamingo Road	347	Early 2006	The Palms Casino Resort
Red Rock Resort and Spa	Town Center & Charleston	421	April 2006	Station Casinos Incorporated
Platinum Condominium-Hotel	211 East Flamingo Road	255	May 2006	Diversified Real Estate Concepts, Inc.
Hilton Grand Vacation Club Phase II	2650 Las Vegas Boulevard South	732	July 2006	Hilton Hotels Corporation
The Residences at MGM Grand (Tower I)	3799 Las Vegas Boulevard South	578	Mid-2006	MGM Mirage Inc.
Majestic & Conrad Las Vegas	2955 Las Vegas Boulevard South	664	December 2006	Lorenzo Doumani

PROPERTY	LOCATION	UNITS	SCHEDULED OPENING DATE	DEVELOPER/ OWNER
Trump International Hotel & Tower	Fashion Show Drive and Las Vegas Boulevard South	1,282	Early 2007	Donald J. Trump and Ruffin Gaming LLC
Palazzo at the Venetian	Las Vegas Boulevard South and Sands Boulevard	3,025	Mid-2007	Las Vegas Sands Corporation
The Residences at MGM Grand (Tower II)	3799 Las Vegas Boulevard South	578	Mid-2007	MGM Mirage Inc.
Hard Rock Condominium-Hotel	4455 Paradise Road	738	Late 2007	Hard Rock
Palms Place Condominium-Hotel	4321 West Flamingo Road	599	2007	The Palms Casino Resort
Alexis Park Resort Expansion	375 East Harmon Avenue	1,000	2007	NAV
The Cosmopolitan	Las Vegas Boulevard South & Harmon Avenue	2,700	Early 2008	3700 Associates, LLC
Las Ramblas Resort	370 East Harmon Avenue	1,626	Early 2008	Related-Centra Ventures LLC
W Las Vegas Hotel, Casino & Residences	Harmon Avenue and Koval Lane	NAV	2008	Starwood Hotels & Resorts Worldwide Inc.
Encore at Wynn Las Vegas	3145 Las Vegas Boulevard South	1,500	2008	Wynn Resorts
Fontainebleau Hotel/ Casino	Las Vegas Boulevard South	4,000	2008	Fontainebleau Resorts
Loews Hotel	Lake Las Vegas	400	2008	Loews Hotels
Trump International Hotel (Phase II)	Industrial Road and Fashion Show Drive	1,282	2008	Donald J. Trump and Ruffin Gaming LLC
Station Casinos Wild Wild West Project	3330 West Tropicana Avenue	1,000	2008	Station Casinos Inc.
MGM Mirage Project CityCenter Phase 1	Las Vegas Boulevard South	6,850	2009	MGM Mirage Inc.

Major Transactions in 2005

A significant amount of mergers and acquisitions of gaming companies occurred in 2005, including the $9 billion acquisition of Caesars Entertainment by Harrah's Entertainment in July 2005 and the $8 billion acquisition of Mandalay Bay by MGM Mirage in the summer of 2005. These acquisitions have made Harrah's Entertainment the largest gaming company in the world, and MGM Mirage the second largest.

Additionally, the 2,640-room Imperial Palace Hotel & Casino was purchased by Harrah's Entertainment in August for $370 million (approximately $140,152 per room) from Imperial Palace LLC. Harrah's has tentative plans to raze the resort for a potential future development, but with an undisclosed timeframe. The resort contains approximately 40,000 square feet of meeting space and 52,000 square feet of gaming space.

In September, Landry's Restaurants, Inc. acquired The Golden Nugget through the purchase of its parent company, Poster Financial Group, Inc. for $295 million. Landry's anticipates revitalizing downtown Las Vegas through its acquisition and the addition of new restaurants, including a Vic and Anthony's and Grotto, two of Landry's signature restaurants.

Political/Economic/Legal Changes

According to the U.S. Department of Labor, Las Vegas's unemployment rate for September 2005 (preliminary) 4.2%, remaining unchanged from September 2004, but decreasing 0.2 percentage point from year-end 2004. Unemployment for Nevada experienced similar trends, with a preliminary unemployment rate of 4.1% in September 2005, remaining unchanged from September 2004, but decreasing 0.2 percentage point from year-end 2004. The national unemployment rate as of October 2005 was 5.0%.

Residential home prices in Las Vegas are beginning to decrease as the housing market returns to normal after a recent housing boom driven by low interest rates and a strong local economy. The median price of a new home increased in September 2005 to approximately $301,000, while the median price of existing homes increased to approximately $284,500. These prices represent an increase in price of approximately 21.6% for new homes and 20.0% for existing homes versus year-end 2004. The increase in prices, however, appears to be slowing, as annual increases ranged from 35% to 40% in early 2005. The number of new homes closed year-to-date through September 2005 was approximately 27,000, representing an increase of 30% from the same period a year ago.

regions and markets

los angeles

LOS ANGELES

Introduction

The Los Angeles lodging market experienced significant growth in ADR and occupancy levels in 2005 compared to the previous year. Positive operating fundamentals are primarily due to increasing domestic corporate and international travel as a record number of tourists are expected to visit Los Angeles in 2006. As a result, the market is anticipated to continue its upwards trend, with improving macroeconomic conditions and minimal lodging supply additions in 2006 and beyond.

According to Smith Travel Research, the Los Angeles lodging market experienced a RevPAR increase of 11.9% year-to-date ending November 2005. ADR increased 7.3% year-to-date ending November 2005 and Los Angeles's occupancy level rankings improved to third in the nation at 76.5% (behind New York City and Oahu Island in Hawaii).

The Los Angeles lodging market is anticipated to continue to demonstrate positive lodging fundamentals. For year-end 2005, ADR is anticipated to increase by 7.5% from $96 to $103. Occupancy is anticipated to increase by 2.9 percentage points to 74.5%, resulting in a RevPAR increase of 11.7%, from $69 to $77.

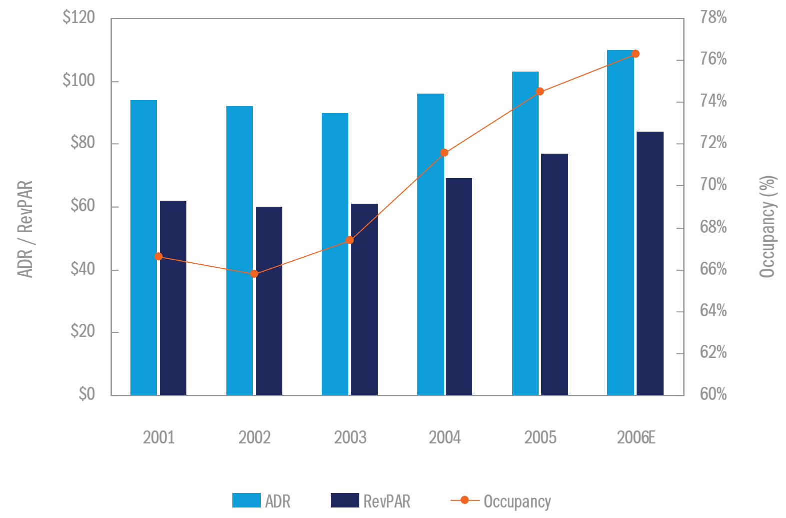
In 2006, occupancy is anticipated to increase again by 1.8 percentage points to 76.3%, while ADR is anticipated to increase 7.0% from $103 to $110, resulting in a RevPAR increase of 9.7% from $77 to $84.

Market Strengths

The Los Angeles lodging market is anticipated to continue to benefit from significant increases in demand coupled with minimal additions to lodging supply. The weakened dollar has resulted in an increase in overseas travel to Los Angeles. Additionally, new demand generators, including the possibility of a professional football team for the 2009 season and the expansion of Los Angeles International Airport in the next five years and the Port of Los Angeles in 2006, are anticipated to further increase lodging demand. The lodging supply is anticipated to increase

Lodging Market Occupancy, ADR, RevPAR Performance

LOS ANGELES



Source: Smith Travel Research

Lodging Market Change in Monthly Occupancy, ADR, RevPAR Performance

LOS ANGELES

Source: Smith Travel Research

marginally, at approximately 1.0%, in 2006. Furthermore, market growth in areas such as Redondo Beach/El Segundo, West San Fernando Valley, San Gabriel Valley, and Downtown Los Angeles have been identified by Los Angeles County Economic Development Corporation (LAEDC) as "hot spots" for 2006.

Market Challenges

Mitigating the increasing influence of union workers and the emigration of the entertainment and automotive industries due to high costs of doing business appear to be the major challenges for Los Angeles in 2006. Throughout 2004 and 2005, unions, hotel, and tourism leaders were involved in a significant labor dispute resulting in dozens of groups canceling events in Los Angeles. Additionally, as other states and countries continue to offer tax breaks, financing, other incentives, as well as an overall lower cost of doing business, Los Angeles is vulnerable to emigration of entertainment and automotive industries. LAEDC estimates that by year-end 2005, the entertainment industry will achieve an annual average employment of 161,300 persons, in comparison to the 174,400 persons in 1999.

Demand Changes

In November 2005, Nissan North America announced plans to relocate its headquarters from Gardena, Calif., to Nashville, Tenn. in 2006. The relocation, due to a lower cost of doing business in Tennessee, is anticipated to remove 1,300 employees and their families from the Los Angeles area.

In November 2005, the National Football League (NFL) announced that a preliminary agreement has been reached to return a professional football team to Los Angeles. Tentative plans call for the NFL to help finance the $500 million construction of the Coliseum stadium in downtown Los Angeles. However, no definite development plans have been made in regards to the stadium's location. Other possible locations include the Angel Stadium parking lot in Anaheim and the Rose Bowl in Pasadena.

In September 2005, the Los Angeles City Council agreed to provide up to $266 million in subsidies, including a 25-year transient occupancy tax rebate, various waivers, and a below-market value loan, to Wolff Development for the development of the new 56-story convention center hotel in Downtown Los Angeles. Upon completion, the hotel is anticipated to be operated by Hilton Hotels Corporation and will include 1,200 guestrooms, 110 luxury condominiums on the top floors, and approximately 100,000 square-feet of meeting space. Construction on the hotel is anticipated to commence by year-end 2005 and open in 2009 and is anticipated to generate significant business at the Los Angeles Convention Center. Along with the new hotel, the developer has plans for an adjacent $1.7 billion entertainment district, to be called "L.A. Live," which is anticipated to include a 7,100-seat theater, a 40,000 square-foot plaza, a 4,000-seat movie theater, 5,300 parking spaces, 4,000 condominium units, numerous retail shops, restaurants, nightclubs, and a television and radio broadcast center. The owner of the Westin Bonaventure in Downtown Los Angeles, who filed a lawsuit against the city in opposition to the subsidies, was recently granted permission by the mayor to convert 400 of the 1,200 hotel rooms into condominiums at an undetermined future date.

The Related Companies' master plan for the Frank Gehry-designed $1.8 billion Grand Avenue project was approved in May 2005. The mixed-use development project, located across from the Walt Disney Concert Hall in Downtown Los Angeles, is anticipated to feature a 45-story hotel and condominium tower, with approximately 275 guestrooms and 200 condominium units. The project is also anticipated to include approximately 2,200 additional residential units, 600,000 square feet of commercial office space, and 400,000 square feet of retail space. Construction is schedule to begin in late-2006 with completion in 2009.

Los Angeles World Airports (LAWA) anticipates significant growth in passenger volume in 2006 and thereafter, primarily due to the current $11 billion expansion plan of Los Angeles International Airport (LAX) and increases in international travel, which increased 7.6% year-to-date through September 2005, compared to the same period last year. It is projected that by year-end 2005, 62 million passengers will have traveled through LAX, representing a 2.1% increase from 2004. Phase one of the expansion plans was approved by the Federal Aviation Administration in May 2005, permitting construction bids to be submitted.

The Port of Los Angeles is currently undergoing significant redevelopment of 400 acres of industrial space into parks, public waterways, and recreational facilities. The development, which broke ground in February 2004 with a 10-year timeline, is anticipated to transform the Port of Los Angeles into a user-friendly port for cruise-ship passengers. The first phase of the expansion, the Los Angeles Cruise Ship Promenade, opened in December 2004, while the Harbor Gateway Promenade opened in October 2005. Construction on the Gateway Plaza at the intersection of Sixth Street and Harbor Boulevard is anticipated to be completed in 2006.

Supply Changes

In April 2005, the city council of West Hollywood approved the Sunset Millennium project, a mixed-use development proposed by Apollo Real Estate Advisors anticipated to include two new hotel properties, a W and a J.W. Marriott, with a combined 296 guestrooms. Construction is anticipated to begin late in 2005, with completion in approximately 26 months. Additionally, the 214-room Montage Hotel Beverly Hills was approved for development and is anticipated to be the first new luxury hotel development in Beverly Hills in several years. The development will include approximately 1,000 public parking spaces, 5,000 square feet of retail space, a 20,000 square-foot health spa, 25 luxury condominium units, restaurant space, and three public gardens. Construction is scheduled to begin in spring 2006.

Increases in ADR and occupancy in 2005 were supported by a marginal increase in lodging supply of 0.2% year-to-date as of September 2005. Lodging supply growth during the fourth quarter 2005 and throughout 2006 is anticipated to be more significant at approximately 1.0%, fueled primarily by limited-service properties, including the opening of the 456-room Hampton Inn and Suites in Palmdale in October 2005. By 2010, the limited-service lodging supply in Los Angeles is anticipated to increase by approximately 1,800 rooms from the current level of approximately 34,600 rooms, representing a 5.1% increase. Another trend in the lodging market is the development of mixed-use projects, which include both dedicated hotel as well as condominium units. Proposed developments in the area include L.A. Live, the Westin Bonaventure, and the Grand Avenue developments in downtown Los Angeles, as well as Sunset Millennium in West Hollywood and the Montage Hotel development in Beverly Hills.

Hotel Closings, Anticipated Openings, and Renovations

The following charts summarize selected major supply changes.

Hotel Closings in 2005

PROPERTY	LOCATION	UNITS	CLOSING DATE	COMMENTS
Orchid Hotel	Los Angeles	65	January 2005	
Pasadena Motor Inn	Pasadena	27	February 2005	
El Dorado Motor Inn	West Covina	82	July 2005	

Major Renovations in 2006

PROPERTY	LOCATION	UNITS	SCHEDULED RENOVATION DATE	OWNER
Sofitel Hotel	Los Angeles	298	Spring 2006	Accor North America
Hyatt Regency Century City	Century City	728	2006	Sunstone Hotel Investors & Global Hyatt Corporation

PROPERTY	LOCATION	UNITS	SCHEDULED RENOVATION DATE	OWNER
Sheraton Los Angeles Downtown Hotel	Los Angeles	485	Early 2007	Jamison Properties, Inc.
Wyndham Bel Age (rebranded as London L.A.)	West Hollywood	200	Early 2007	Blackstone Group
Wilshire Grand Hotel	Los Angeles	900	Late 2008	Hanjin International Corporation
Doubletree Hotel	Westwood	294	NAV	Realty America Group Inc.

Planned Additions

PROPERTY	LOCATION	UNITS	SCHEDULED OPENING DATE	DEVELOPER/OWNER
Shade Hotel	Manhattan Beach	38	November 2005	NAV
Best Western	Long Beach	75	November 2005	Asara Inc.
La Quinta Inn and Suites	Santa Clarita	112	December 2005	NAV
Universal Hotel	Studio City	65	January 2006	Gary Patel
Hotel Angeleno	Brentwood	209	Early 2006	Joie de Vivre Hospitality
Four Seasons	Westlake Village	270	Spring 2006	Dole Food Company Incorporated
Comfort Inn	North Hollywood	60	May 2006	Oak Tree Realty
Holiday Inn Express	San Dimas	68	June 2006	NAV
Hampton Inn and Suites	Burbank	100	June 2006	JTHC Inc.
Homewood Suites	Agoura Hills	127	July 2006	J.H. Snyder Company
Unnamed	Claremont	100	August 2006	The Tolkin Group
Hotel Gansevoort West	Los Angeles	167	2007	WSA Management Limited & Chetrit Group
Embassy Suites at D’Orsay Promenade	Long Beach	228	Late 2007	The D’Orsay International Partners LLC
Montage Beverly Hills	Beverly Hills	214	Early 2008	Beverly Hills Luxury Hotel LLC & The Athens Group

PROPERTY	LOCATION	UNITS	SCHEDULED OPENING DATE	DEVELOPER/OWNER
W Hotel and JW Marriott	West Hollywood	296	Early 2008	NAV
Terranea Resort	Palos Verdes	400	Winter 2008	Lowe Destination Development
Tejon Mountain Village	Lebec	750	2008	Tejon Ranch Company
Campus El Segundo Hotel	El Segundo	100	2008	Thomas Properties Group Inc.
Hilton Convention Center Hotel	Los Angeles	1,100	Early 2009	Anschutz Entertainment Group
W Hotel at Grand Avenue	Los Angeles	225	Early 2009	The Related Companies
W Hollywood Hotel & Residences	Hollywood	300	Late 2009	NAV

Major Transactions in 2005

In 2005, a significant number of lodging transactions occurred in Los Angeles County. The most notable transaction was the sale of the 728-room Westin Century Plaza Hotel and Spa in August 2005, purchased by Global Hyatt Corporation and Sunstone Hotel Investors, Inc. from Pivotal Group for approximately $293 million ($402,473 per room). The hotel will be repositioned and rebranded as Hyatt Regency Century Plaza and commence a $22.5 million renovation, including guestrooms, public space, and a Hyatt Regency Club guestroom level.

Transactions occurring during the first half of 2005 include the sale of the 393-room Hilton Long Beach to HEI Hospitality from AEW Capital Management for $77 million ($195,929 per room) in January and the sale of the 108-room Grafton on Sunset in West Hollywood to LaSalle Hotel Properties from a private investor for $25.5 million ($236,111 per room), also in January. In February, the 487-room Torrance Marriott was purchased by DiamondRock Hospitality from Host Marriott for $61.5 million ($126,283 per room), and in March, NBC Universal sold the 436-room Sheraton Universal Hotel to Walton Street Capital for $49 million ($112,385 per room). In April, Citibank sold the 195-room Coast Long Beach to Ensemble Investments for $12 million ($61,538 per room), and Sunstone Hotel Investors, Inc. sold the 224-room Doubletree Carson Civic Plaza to a private investor for approximately $12.4 million ($55,532 per room).

Thompson Hotel Group purchased the 110-room Best Western Beverly Pavillion Hotel for $24 million ($218,182 per room) in May 2005. Upon renovations, the 110-room hotel is anticipated to be repositioned as an upscale boutique hotel and renamed Thompson Beverly Hills. Finishing out the first half of the year, the 351-room Hilton Glendale was acquired by Eagle Hospitality Properties Trust from Hilton Hotels for $79.8 million ($227,350 per room), the 203-room Sheraton in Cerritos was purchased by Sunstone Hotel Investors for $26.8 million ($132,020 per room), and the Marriott Los Angeles Airport was purchased by DiamondRock Hospitality Company for approximately $118 million ($117,530 per room), all occurring in June.

In the second half of the year, The Geffen Company purchased the 47-room Malibu Beach Inn in July for $29 million ($617,021 per room), and in October, the 171-room Marriott Norwalk was purchased by Andy Kim from Stanford Hotels for $16.7 million ($97,661 per room). Furthermore, in November 2005, SBE Hotel Group acquired the 297-room Le Meridien Beverly Hills for an undisclosed amount and is anticipated to reposition the hotel as a Philippe Starck hotel. In November, the 740-room Westin Los Angeles Airport was included in Host Marriott Corporation's acquisition of 38 hotels from Starwood Hotels and Resorts. The portfolio consists of approximately 18,964 rooms and sold for $4.04 billion.

Political/Economic/Legal Changes

According to LAEDC, the Los Angeles economy is anticipated to continue to gain momentum through 2006. The county's unemployment rate is anticipated to average approximately 5.5% in 2005, improving from a rate of 6.6% in 2004. Per capita personal income is anticipated to be approximately $34,335, representing an increase of 5.3% versus 2004, while CPI is anticipated to increase to 4.3%, reflecting pressure on both energy and housing costs.

In June 2005, an agreement was signed to end the 14-month labor union dispute between Unite Here Local 11 and the Los Angeles Hotel Employer's Council. On June 15, 2005, more than half of Unite Here Local 11's 2,500 members voted to ratify the contract agreement that guaranteed free healthcare and a $0.65 per hour raise to union workers, whose contract expires November 30, 2006, along with union contracts in numerous other major metropolitan areas.

regions and markets

manhattan

MANHATTAN

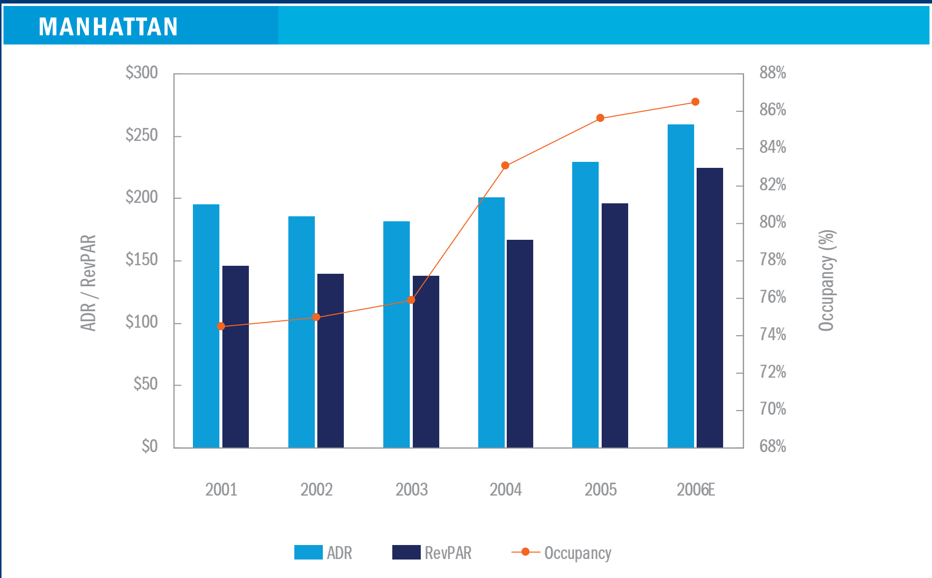
Introduction

During 2005, the Manhattan lodging market experienced strong performance gains, surpassing the year-end 2000 ADR and occupancy levels. This market's recovery continued to outpace other major U.S. markets. Manhattan's year-to-date September 2005 occupancy averaged 84.8%, an increase of 2.9 percentage points over the same period in 2004. On top of the occupancy gain, ADR continued to climb, reaching $214, a 14.3% increase over year-to-date September 2004.

This performance is attributed to a shift in market fundamentals corresponding to an increase in demand while existing supply was taken off the market. This increase in lodging demand was a result of improvement in overall economic activity, increase in business travel, and enduring attractiveness to leisure travelers. Lodging demand from international travelers continued to increase as a result of successful marketing initiatives by New York tourism agencies and the resilience of favorable currency exchange rates. Despite strong lodging fundamentals, the Manhattan market experienced a decrease in supply due to the popular trend of converting existing hotel properties into condominiums in return for higher yields. As it was less profitable to continue developing Luxury and Upper Upscale hotels, Manhattan experienced supply increases mainly in the Upscale, Midscale, and Limited Service market segments, including extended-stay products. These new additions reflected a transition away from prime real estate areas in Midtown, as investors took advantage of lower real estate and land prices in areas such as Lower Manhattan.

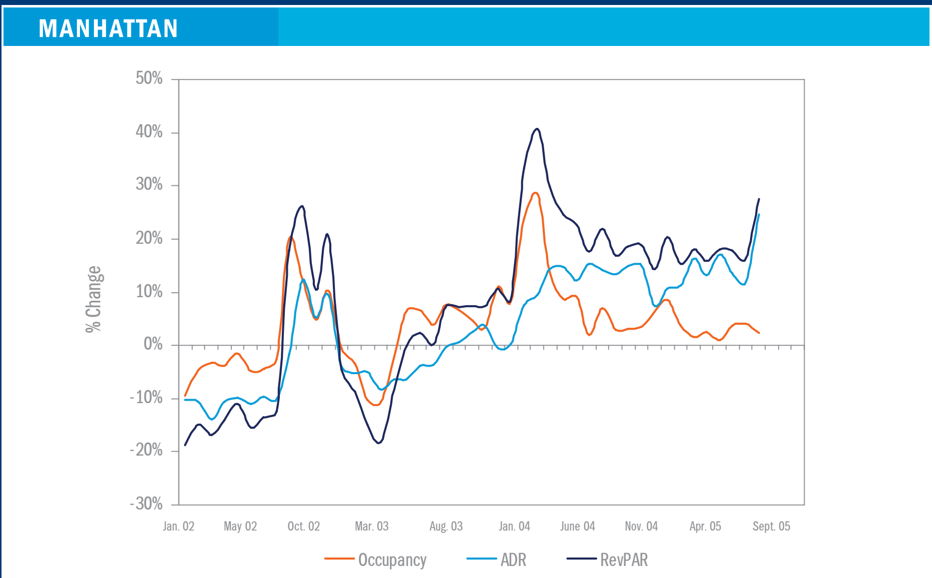
Lodging fundamentals strengthened throughout 2005 and have shown little sign of slowing down in the near-term. In 2006, Manhattan is anticipated to continue its current growth trend as a result of increasing tourism activity, business travel, and a limited pipeline of hotel development. In addition, the expansion of the Jacob K. Javits Convention Center, as well as the redevelopment of lower Manhattan as a 24/7 residential community with major tourist attractions and a revitalized office market, are also key drivers of growth in the near future. Though condominium conversions will continue in prime residential areas, supply is anticipated to increase.

Lodging Market Occupancy, ADR, RevPAR Performance



Source: Smith Travel Research

Lodging Market Change in Monthly Occupancy, ADR, RevPAR Performance



Source: Smith Travel Research

Occupancy is anticipated to grow by 0.9 percentage point to 86.5% while ADR is anticipated to grow by 13.0% to $259, resulting in a RevPAR growth of 14.1% $224.

Market Strengths

The Manhattan market experienced outstanding performance as demand for hotel rooms increased, with an influx of business travel as well as Manhattan's continued popularity as a top leisure destination. According to NYC & Company, an estimated 41 million visitors are anticipated to visit New York City by year-end 2005. With high development costs and superior yields on condominium conversions, demand has outpaced supply, resulting in high occupancy levels in conjunction with double-digit gains in ADR from year-to-date September 2004 to the corresponding period in 2005.

Market Challenges

Manhattan remains one of the leaders in setting record high real estate prices in the residential market. There is speculation that this investment trend, which was supported by rapid appreciation and low interest rates, may slow down as new supply enters the market and mortgages become more expensive. This "cooling" of the residential market may result in stronger growth in hotel development activity than in the recent past.

Demand Changes

The sale of up to $800 million in revenue bonds designed to fund the expansion of the Jacob K. Javits Convention Center was approved in September 2005. The expansion is part of a $5 billion plan to revitalize the West Side of Manhattan, and is anticipated to include the addition of 1.1 million square feet of exhibition space to the existing 760,000 square feet. In addition, the city anticipates an extension of the No. 7 subway line to the convention center, as well as rezoning certain districts for office space, retail, residential, and park uses. The expansion is anticipated to be partially funded with an additional $1.50 per night hotel room surcharge. To complement demand for the convention center expansion, a 1,500-room hotel is also planned for development. The expansion is anticipated to result in significant economic impact for Manhattan, creating an additional 10,803 new jobs and generating an additional $53 million in new tax revenue.

The Carnival Corporation is anticipated to exercise an option offered by the city to move the berth of four ships from the West Side Passenger Ship Terminal to a new pier being developed in Red Hook, Brooklyn. This shift is anticipated to attract an additional 250,000 voyagers to New York City above the current level of 900,000. In addition, the Economic Development

Corporation anticipates additional economic impact through an increase in spending in New York of $300 million for hotels, meals, retail, and other businesses from these additional voyagers.

The three major airports that service Manhattan (Newark, LaGuardia, JFK) are anticipated to experience an increase in air traffic from 94 million passengers in 2004 to over 100 million by year-end 2005. JFK anticipates passenger volume of 41 million travelers for 2005, an increase of 9% over 2004 levels. LaGuardia anticipates similar increases in passenger volume for 2005, with a 6% increase over 2004 levels with 26 million passengers. These increases are due to declining airline ticket prices, strong demand, and public and private investments in airport infrastructure. JetBlue Airways unveiled its new $46 million, 100,000-square foot aircraft hangar at JFK. This aircraft hangar was constructed in preparation for a new 26-gate passenger terminal at JFK on which JetBlue recently broke ground in December. In a similar move, American Airlines invested $1.1 billion into the development of a 36-gate passenger terminal. In addition, the seventh and final contract in a $179 million improvement plan to prepare JFK for the Airbus 380 and other next generation aircraft was approved in September 2005.

Manhattan's office market has continued to experience improvement during the first five months of 2005, as total availability declined to 11.8% in May, a decrease from 12.4% in January. As of May, the Manhattan market had experienced more than 3.4 million square feet of positive absorption since year-end 2004. In the same period, Midtown recorded a decrease of 2.3 million square feet of commercial space, while Midtown South experienced 1.6 million square feet of positive absorption. For the first three months of 2005, the vacancy rates in Midtown and Midtown South decreased to 9.8% and 9.9%, respectively. These vacancy rates represent a three-year low for Midtown, as well as a three-and-a-half-year low for Midtown South.

As of May, the Downtown market had experienced 580,798 square feet of negative absorption since December 2004, though in May it experienced 191,982 square feet of positive absorption. As of the end of first quarter 2005, Downtown had experienced a decrease in vacancy to 12.3% from 13.7% at year-end 2004. This decreased vacancy is the lowest since the first quarter of 2002, where the vacancy rate was 11.9%. Downtown is finally beginning to see a return of tenants, with Morgan Stanley moving 2,300 employees to One New York Plaza. Morgan Stanley's relocation is anticipated to initiate other tenants to return Downtown and help restore vacancy closer to the pre-9/11 level. In a similar move, Goldman Sachs broke ground on a 430-story office tower adjacent to Ground Zero. The Goldman Sachs development in conjunction with the near-completion of 7 World Trade Center are two significant factors anticipated to positively impact employment Downtown.

The Lower Manhattan Development Corporation (LMDC) is currently working on an initiative to rebuild Lower Manhattan and restore it to pre-9/11 levels. With funding from the U.S. Department of Housing and Urban Development, LMDC is anticipated to focus on the development of the World Trade Center site. Current plans involve the Freedom Tower, a museum, a performing arts venue, several parks, a church, retail space, office space, and a transit center, as well as government space. All of these additions are anticipated to be part of a five-tower complex. The Freedom Tower and associated developments are anticipated to be popular tourist attractions, and are expected to create new jobs and up to $19 billion of economic activity. These developments support strong initiatives undertaken by other development groups, resulting in Downtown Manhattan becoming the fastest growing residential community in New York City.

Supply Changes

The Manhattan market has continued its trend of decreasing supply throughout 2005. With the combination of high land, real estate, and construction costs, investors found it increasingly difficult to rationalize hotel development in the upper tier segments during 2005, when higher yields could be realized from residential development or condominium conversion. The new supply additions in 2005 and development pipeline in 2006 for Manhattan are largely comprised of branded Upscale, Midscale and Limited Service properties. These properties were generally located away from Midtown, as investors sought less costly areas throughout the borough.

Hotel Closings, Anticipated Openings, and Renovations

The following charts summarize selected major supply changes.

Hotel Closings in 2005

PROPERTY	LOCATION	UNITS	CLOSING DATE	COMMENTS
The Stanhope Park New York	995 Fifth Avenue	185	February	Undergoing conversion to condominiums.
The Melrose Hotel New York	140 East 63rd Street	288	July	Undergoing conversion to condominiums.
The Plaza	Fifth Avenue and Central Park South	805	May	Undergoing $350 million renovation and partial conversion to condominiums. Anticipated reopening in 2007, with 282 rooms to be managed by Fairmont.
Wyndham Hotel	42 West 58th Street	209	July	

Planned Renovations in 2006

PROPERTY	LOCATION	UNITS	SCHEDULED RENOVATION DATE	OWNER
The Essex House Hotel	160 Central Park South	605	2006	Dubai Investment Group

Planned Additions

PROPERTY	LOCATION	UNITS	SCHEDULED OPENING DATE	DEVELOPER/OWNER
Holiday Inn Express	13 West 45th Street	125	October 2005	Presidential Suites LLC
Residence Inn New York Times Square	1033 Avenue of Americas	345	November 2005	G. Holdings Corporation
Courtyard by Marriott	410 East 92nd Street	226	November 2005	The John Buck Company
Hampton Inn New York Seaport Financial District	320 Pearl Street	65	December 2005	Metro Five LLC
The Duane Street Hotel	130 Duane Street	45	December 2005	Mike Sand Orient Construction Group
Unnamed Hotel	99 Third Avenue	NAV	January 2006	Michael Kang Architect, PLLC
M & R Hotel	305 West 39th Street	72	March 2006	NAV
Howard Johnson	449 West 36th Street	40	March 2006	NAV
Unnamed Hotel	180 Central Park South	NAV	March 2006	NAV
The Broadway	465 Broadway	NAV	March 2006	WXIV/Broadway Grand Realty LLC
Hilton Garden Inn Tribeca	6 York Street	150	March 2006	Orient Construction Group
Wingate Inn	235 West 35th Street	92	April 2006	Ramin LLC
Unnamed Hotel	438 West 13th Street	NAV	April 2006	NAV

PROPERTY	LOCATION	UNITS	SCHEDULED OPENING DATE	DEVELOPER/OWNER
Ramada Hotel	416 Broadway	100	May 2006	NAV
Four Points Soho Village	66 Charlton Street	153	July 2006	NAV
Holiday Inn Express	232 West 29th Street	188	August 2006	Mike Sand Orient Construction Group
Courtyard by Marriott Harlem	1800 Park Avenue	222	February 2007	Marriott International Corporation New Jersey
Ritz-Carlton Hotel	30 West Street	298	June 2007	NAV
Unnamed Hotel Javits Convention Center	11th Avenue & West 42nd Street	1,500	NAV	Jacob K. Javits Convention Center

Major Transactions in 2005

During 2005, 13 major hotel transactions occurred in the Manhattan market. The 935-room Park Central Hotel was purchased from Lehman Brothers, for $200 million (approximately $213,903 per room), by a group comprised of Highgate Holdings and funds managed by Goldman Sachs. Highgate Holdings also purchased the 300-room Crowne Plaza United Nations from InterContinental Hotels Group for $34 million (approximately $113,333 per room). The 176-room The Mark Hotel was sold for $150 million (approximately $852,300 per room) by Madison Avenue Hotel Partners.

The Essex House Hotel was purchased in September by Dubai Investment Group for $400 million ($661,157 per room), from Strategic Hotel Capital LLC. Dubai Investment Group is planning to convert 15% of the rooms into condominiums, with Jumeirah operating the remainder as a 501-room Westin and a 104-room St. Regis. In addition, Strategic Hotel Capital LLC sold the 646-room Marriot Eastside to Morgan Stanley Prime Property Fund for $287 million ($444,272 per room) and The Blackstone Group's purchased the 505-room Righa Royal for $183 million ($362,376 per room) from Lehman Brothers.

Other notable transactions include a 136-room Hampton Inn purchased by Hersha Hospitality Trust from Brisam Hotel LLC for $31.3 million ($230,147 per room) and Intell Management's purchase of the 182-room Stanhope Park Hyatt from Hyatt Equities for $70 million ($384,615 per room). In November, the 1,746-room Sheraton New York Hotel, and the 688-room

W New York were included in Host Marriott Corporation's acquisition of 38 hotels from Starwood Hotels & Resorts. The portfolio consists of approximately 18,964 rooms and sold for $4.04 billion.

Political/Economic/Legal Changes

The overall economic outlook is strong for New York City, with the National Association of Purchasing Management's business conditions index reaching 353.2, the highest level recorded since January, 1997. The Bureau of Labor Statistics reports that New York City's unemployment rate decreased to 6.0% in October 2005 down from 6.4% in October 2004. Decreasing unemployment rates in conjunction with proactive economic policies are anticipated to help Manhattan continue its positive economic growth though 2006. However, an increase in labor costs driven by the increasing minimum wage and increasing operating expenses such as energy have left Manhattan hotels experiencing strong growth in occupancy and ADR levels without proportional increases in profitability.

regions and markets

miami

MIAMI

Introduction

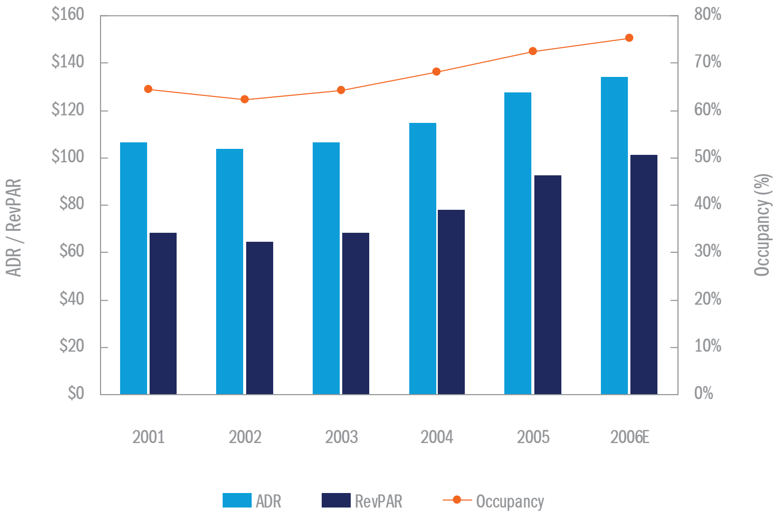
As one of the strongest-growth tourism markets in the country, Miami continues to develop into an upscale multi-cultural destination attracting an even mix of domestic and international visitors. Aside from its thriving nightlife and post-card beaches, the city continues its transformation into a year-round destination by enhancing its cultural offerings and making improvements to its tourism infrastructure. As the Downtown and Brickell areas develop into places for residents to work, live and play, they are also attracting the interest of corporate and group hotels, while the North Miami and South Beach areas continue to focus on leisure-oriented products.

According to Smith Travel Research, market occupancy through November 2005 was 72.8%, making the Miami market the seventh strongest occupancy performer in the United States. ADR also showed improvements, increasing 11.4% over the same time period in 2004, to $127, the fourth highest in the United States, trailing only New York, Honolulu and Washington, D.C. Occupancy improvements are a result of a strengthening of the U.S. economy, as well as the efforts of the Greater Miami Convention and Visitors Bureau (GMCVB) and area hoteliers to reduce the seasonality in Miami by promoting summer events. The increase in ADR has been primarily attributed to the entry of luxury hotels in the market, and the resultant repositioning of the city as an upscale destination.

Occupancy and rate improvement through November 2005 resulted in a 18.6% RevPAR increase to $93 for Miami. This trend is anticipated to continue through the end of 2005 as workers from Florida Power and Light (FPL), Federal Emergency Management Administration (FEMA), insurance adjusters, and other hurricane-related support personnel stay in Miami-area hotels. These workers are anticipated to depart by mid-December, as high-paying, transient guests arrive in Miami for the holiday and winter season. It is anticipated that 2006 will experience a 9.0% increase in RevPAR relative to the prior year, resulting from a 5.0% increase in ADR to $134 and an increase of 2.8 percentage points in occupancy to 75.3%.

Lodging Market Occupancy, ADR, RevPAR Performance

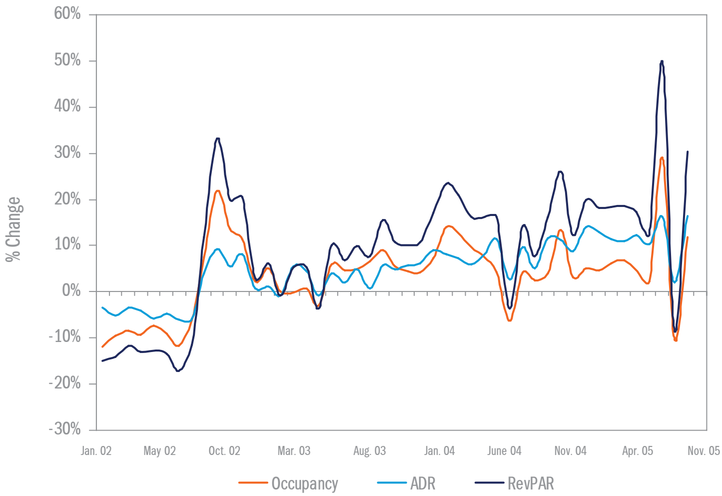
MIAMI



Source: Smith Travel Research

Lodging Market Change in Monthly Occupancy, ADR, RevPAR Performance

MIAMI



Source: Smith Travel Research

Market Strengths

Miami continues to attract visitors for its warm weather, waterfront locations, and active nightlife. As it continues to build on its cultural base with offerings such as the Performing Arts Center (currently under development) and the proposed additions to the Miami Beach Convention center and Jackie Gleason Theater, the city should be able to further attract both individual and group travelers. The opening of several upscale and luxury properties in recent years are also positively contributing to Miami's trendy and upscale image, while a vibrant real estate market has placed the city as "the place to be." Furthermore, Miami's proximity to Latin America further allows it to benefit from the continued growth of business and commerce in the area.

Market Challenges

While the 2004 hurricane season did not negatively affect tourism industry performance during the summer months, storms in 2005 were more severe and spanned for a wider time period. Tourism officials demonstrate concern about the continued impact of hurricane activity as stronger seasons are anticipated. The lack of large, contiguous convention space, ongoing construction at Miami's International Airport, as well as traffic and congestion are additional matters that tourism officials and hotel operators wish to improve.

Demand Changes

Miami enjoys increased visitation, driven by a weaker U.S. dollar relative to the Euro and improving economic conditions in Latin American markets such as Brazil, Argentina, and Mexico. Convention booking is active, with 516 conventions totaling 313,000 room nights booked in the fiscal year (October through September). This decline may be partially attributed to a lack of sufficient dedicated convention-center rooms in proximity to the convention center and the loss of hotel inventory to condominium conversions, coupled with the expansion of convention facilities in other first-tier markets. The Coconut Grove Convention Center is slated to close in 2006, which may shift smaller, lower-rated convention activity to the beach and Downtown areas. On a positive note, a 2008 opening date is anticipated for a 50,000 square-foot ballroom and additional meeting space improvements at the Miami Beach Convention Center.

Still maintaining the fun and sun draw of the destination, Miami continues to improve its cultural and retail offerings. In the summer of 2005, Miami hosted the MTV Video Music Awards, the Black Film Festival, and the Miami Spice Restaurant Month. Other popular events include the Art Basel weekend at the beginning of the December and the Miami International Boat Show in mid-February. Attraction improvements planned for 2005 and 2006 include a six-month Chihuly glass art exhibit at the Fairchild Botanical Gardens and a $42 million

Tropical America exhibit at the Miami Metrozoo. Adding to the already active schedule of event weekends, in January 2006, South Beach will debut a Comedy Festival. In a plan with mixed reviews from local small business owners, Montreal-based Cirque du Soleil has proposed a $150-million entertainment complex to be built in a conversion of the existing Jackie Gleason Theater. At this time, the final plans are unknown, as the project would require $50 million – $100 million dollars of public funds.

According to the GMCVB, visitation to the Miami-Dade area was up 4.0% in the first six months of 2005. Interestingly, the international market is growing at a faster pace than the domestic segment; domestic visitors grew at 2.8% to 3.4 million, compared to a 4.5% growth in international visitation to 2.6 million.

Miami International Airport is the third-largest international entry site in the United States and is an important connecting hub for travelers bound for Central and South America. Year-to-date through September 2005, passenger arrivals have increased approximately 1.1% to 11,800,000 total arrivals. As of September 2005, the $5 billion capital improvement program was already $437 million over budget, attributed to changes in the north terminal program, which is experiencing higher-than-anticipated costs and whose anticipated opening date has been delayed until 2009.

Cruise passengers at the Port of Miami increased 3.0% through fiscal year 2005 to approximately 3,600,000 total passengers. In 2006, Royal Caribbean is anticipated to add the world's largest cruise passenger ship named Freedom of the Seas. At the Port of Miami, construction of Terminals D and E started in January at an estimated cost of $27.6 million each, and will include high-tech security, baggage, and customs systems. The new facility is also anticipated to allow larger ships into the port, with capacities of up to 4,000 passengers. As observed in 2005, and anticipated to continue in 2006, cruise ships are using Miami as a port of call, allowing passengers to explore retail and cultural centers in the city.

Supply Changes

According to the GMCVB, there are 461 lodging facilities with approximately 49,000 total rooms in Miami-Dade County. As hotel owners wanted to take advantage of the hot South Florida real estate market, several hotels converted to condominiums; the result was a net loss of approximately 1,600 hotel rooms in 2005, despite several hotel openings. An extreme example is Sunny Isles Beach, which has lost over 70% of its budget motels in the past five years. Other notable examples include the Sheraton Biscayne Bay Hotel in Brickell, which was demolished in November (see Page 118), and the Royal Palm Crowne Plaza, now operated by Sol Melía and converting to condominium-hotels.

There is a noted trend toward more upscale lodging alternatives throughout the area. The Holiday Inn on Miami Beach is anticipated to be demolished to be replaced with a W resort, the Sheraton Brickell will be replaced by a mixed-use development anchored by a condominium-hotel to be operated by Kor Hotels, while luxury operators such as Rosewood and Regent will be entering the market. This new inventory adds to already existing luxury offerings including three Ritz-Carltons, the Four Seasons, Mandarin Oriental, Setai and Delano, as well as the recent entrant Hotel Victor. The Fontainebleau, formerly a Hilton hotel, will undergo a $400 million renovation to bring it to a Las-Vegas style resort, while Canyon Ranch is slated to create a wellness community in North Miami Beach. Through 2008, additional upscale hotels are planned such as the Westin Miami and Shangri-La at Watson Island (350 rooms and 147 rooms) and the St. Regis Bal Harbor (250 rooms).

The condominium-hotel structure continues to be popular in the Miami market, with over 3,000 dedicated condominium-hotel units currently existing, and a planned addition of approximately 2,300 more over the next five years. While there is concern over the increase in supply of lodging units and uncertainty around owner participation in the rental programs, area representatives consider the development of more inventory to be accretive to the destination, as it will continue to support the repositioning efforts of Miami as a year-round sophisticated destination.

Hotel Closings, Anticipated Openings, and Renovations

The following charts summarize selected major supply changes.

Hotel Closings in 2005

PROPERTY	LOCATION	UNITS	CLOSING DATE	COMMENTS
Howard Johnson Port of Miami	Miami	115	Summer 2005	Closed permanently – site of Marquis condominium building
Sheraton Miami Biscayne Bay	Miami	598	July 2005	Site of Icon Brickell with Kor Hotels as operator
Howard Johnson Caribbean Ocean	Miami Beach	155	2005	Condominium conversion

Major Renovations in 2006

PROPERTY	LOCATION	UNITS	SCHEDULED RENOVATION DATE	OWNER
Fountainebleau	Miami Beach	1,340	March 2006	Turnberry Associates
Eden Roc Renaissance Hotel	Miami Beach	349	NAV	Key International

Planned Additions

PROPERTY	LOCATION	UNITS	SCHEDULED OPENING DATE	DEVELOPER/OWNER
Acqualina	Sunny Isles	97	April 2006	Williams Island Associates
Hotel Gansevoort South	Miami Beach	332	Fall 2006	Chetrit Group
Bal Harbor Regent Hotel	Bal Harbor	124	December 2006	WCI
Canyon Ranch	Miami Beach	151	December 2006	WSG Development
The Marquis	Miami	50	4th Quarter 2007	Boymelgreen Developers
W South Beach Hotel & Residences	Miami Beach	62	4th Quarter 2007	The Related Group of Florida
The Cabana	Miami Beach	193	March 2008	BSG Development
Westin Miami at Island Gardens	Watson Island	350	1st Quarter 2008	Flagstone Property Group
St. Regis Hotel	Bal Harbor	250	Summer 2008	The Related Group of Florida
Viceroy Hotel at the Icon Brickell (Kor Hotels)	Miami	129	Summer 2008	The Related Group of Florida
Shangri La	Watson Island	147	Summer 2008	Flagstone Property Group
Dupont Towers Hotel and Residences	Miami	62	Summer 2008	CMC Group and Lionstone Hotels & Resorts
Fantasy on Ocean – Hilton	Sunny Isles	210	NAV	NAV

Major Transactions in 2005

The hotel transaction market was relatively active in 2005. In January, the historic Fontainebleau Resort was purchased by Turnberry Associates from Stephen Muss for an undisclosed amount. Continuing their buying spree in South Florida, the Falor Companies purchased the Omni Colonnade in Coral Gables at the beginning of January. In March, Wyndham International sold the 177-room Grand Bay Hotel in Coconut Grove for $12.5 million ($70,600 per room) as part of a 23-hotel portfolio to a private investment fund managed jointly by Goldman Sachs and associates of Highgate Holdings; in June, the hotel was transferred again for an undisclosed amount, this time to Homero Meruelo Jr., founder of Merco. In conjunction with its purchase of the InterContinental Chicago, Strategic Hotel Capital Inc. purchased the InterContinental Miami at 100 Chopin Plaza for $52.3 million ($81,600 per room) in April. In late October, the 120-room Holiday Inn Miami Airport West and the 96-room Staybridge Suites Miami Airport West were purchased by Trans Inns Management Inc. for an undisclosed amount.

Political/Economic/Legal Changes

The Miami economy continues to be strong, with tourism as the area's largest industry. In November 2005, city of Miami Mayor Manny Diaz, known to be pro-development, was re-elected for a second term with over 65% of the votes in his favor. His previous four years in office included an improved city bond rating, reductions in the city's taxes, and employment rates at historic highs. Unemployment city-wide was 4.0% in September of 2005, a decrease of 1.2% when compared to the same time the previous year and 1.0% below the national unemployment rate of 5.0%. Finally, officials at MIA continue to push to enhance the airport's strategic position in South Florida and are reported to be aggressively pursing discount carriers such as Spirit Air and Ted.

regions and markets

new orleans

NEW ORLEANS

Introduction

Hurricane Katrina, which hit the city of New Orleans in early September 2005, has been devastating for the local people, properties, and all industries. It is expected that the long-term economic impact of the storm on the city's lodging market and tourism industry, its second largest industry, will be profound over the next several years. According to the New Orleans CVB, from September 1, 2005, through March 31, 2006, thirty-three conventions, meetings, and tradeshows were cancelled due to Hurricanes Katrina and Rita, representing $1.3 billion in lost business. Fortunately, the historic French Quarter, which generates approximately $5 billion in annual economic impact and draws more than 10 million people each year, escaped the worst of Hurricane Katrina's damages. Although the city has begun rebuilding as life and businesses are slowly being restored to normal, the majority of hotels will not be fully operational until 2006. During this period, hotels will renovate and rooms will be added back to the total supply. It is anticipated that the city will be open for business during this New Year's Eve and Mardi Gras will take place with a modified schedule in February 2006.

According to Smith Travel Research, year-to-date 2005 performance prior to the storm reflected room occupancy of approximately 67.8% and RevPAR of $75 versus year-end 2004 occupancy of 64.0% and RevPAR of $71. As of October 2005, only 13% of New Orleans' inventory of 38,000 hotel rooms were open, and these rooms were occupied primarily by relief workers, utility employees, and evacuees.

The outlook into the first quarter of 2006 for business travel and convention visitation is bleak. All city-wide conventions at the Ernest N. Morial Convention Center have been canceled through March 31st until renovations have been completed. This represents 23% of the total bookings for the 2005, and 56% of the total bookings for 2006 or a loss of 22 conventions in 2005 and a loss of 45 conventions in 2006. Prior to the catastrophe, the Morial Convention Center had 80 definite bookings for 2006. Ten have switched to an alternate year, 3 are pending, 22 have reconfirmed their commitment to the facility and 3 new events are being added that have been moved from the Louisiana Superdome to the Morial Convention Center.

Market Strengths

The future of New Orleans lies with its rich culture, history, architecture, and cuisine that drew people from all over the world prior to the natural disasters in 2005. Significant restoration efforts, resulting in improvements to the city's infrastructure, lodging supply, convention center, and sports facilities, are anticipated to enable the city to regain its competitive advantage as a unique destination for leisure and convention guests. Pending federal, state, and city legislation and financing for rebuilding provide specific, strong focus on revitalizing, improving and marketing all facets of New Orleans's tourism industry.

Market Challenges

Industry officials are confident that demand will return to a rebuilt New Orleans, in the same manner New York experienced a positive rebound after 9/11. However, there is an underlying concern that media images associated with the hurricane's aftermath will remain in people's minds and have a negative impact on tourism. Additionally, there is the possibility that more cautious meeting planners may hesitate before booking during hurricane season. At the local level, hoteliers are resolved to restore properties and bring operations back to pre-hurricane levels, but will require substantial public section support, (i.e., financing).

Demand Changes

Since its 1985 debut, the Ernest N. Morial Convention Center has played host to 1,573 major events and 10.3 million out-of-state visitors. The operations have produced a statewide economic impact of $36 billion since opening, including $1.93 billion in combined new tax revenues for city and state government bodies. The construction on the long-delayed Phase IV of the convention center was expected to begin in September 2005 after a legislative committee gave unanimous support to a new $315 million contract. Due to hurricane damage, however, there is uncertainty whether the Phase IV expansion will move forward. The addition was expected to expand the facility by 50%, to 1.6 million square feet, making it the fourth largest convention center in the country. Presently, the convention center is functioning as a base for military recovery operations. All conventions to be held through the end of March 2006 have been canceled. However, the following conventions have been confirmed for the second half of 2006 and into 2007:

- American Library Association with 17,000 attendees, generating 43,000 room nights (June 2006)
- The Society of Exploration Geophysicists (SEG) with 8,500 attendees, generating 14,755 room nights (October 2006)

- The American Society of Human Genetics (ASHG) with 5,000 attendees, generating 16,230 room nights (October 2006)
- The American Rental Association with 11,000 attendees, filling more than 14,000 hotel rooms (February 2007)

The Louisiana Superdome sustained significant damage during Hurricane Katrina and will be unavailable to host any games for the entire 2005 football season. The stadium is currently undergoing repairs and is anticipated to resume its normal schedule for the 2006 season.

The New Orleans Arena, which typically hosts numerous sports and entertainment events, did not suffer significant structural damage during the hurricanes. However, all events scheduled for the next several months have been postponed. The facility is anticipated to be fully operational by the middle of the first quarter of 2006.

New Orleans' casinos and cruise lines operating along the Mississippi Gulf Coast experienced substantial damage from the hurricanes. Many casino properties housed in barges along the 78-mile long Gulf Coast have been completely destroyed. Cruise lines, including the Delta Queen Steamboat Company, Elation Cruises, Holiday Cruises, and Sensation Departures, have suspended their operations. To assist with rebuilding efforts, the Carnival Corp., which operates Carnival Cruise Lines, has contracted three of its ships to house FEMA employees for six months. Currently, the Port of New Orleans is open and fully functional for normal cargo traffic.

Louis Armstrong International Airport opened for commercial flights during the third week in September 2005, nearly two weeks after hurricane Katrina hit New Orleans. The airport, which normally receives approximately 350 flights a day, does not expect to resume full operations for another 18 months. Even then, airport passenger traffic may be significantly lower than pre-hurricane levels. The loss of vacationers and convention business will have a direct impact on the operation of the airport, its employees, and support facilities such as restaurants and gift shops located within the terminals.

Supply Changes

Following hurricanes Katrina and Rita, the majority of hotels in New Orleans were closed to the public. As of November 2005, hotels in operable condition have been used to house FEMA personnel and contractors, utility employees, personnel from companies involved in the recovery, insurance claim adjusters and their own hotel staff. Planned additions to the lodging supply are still unknown as the current supply has yet to fully re-open. Many existing hotels sustained water and mold damage from flooding or structural damage from the winds. They continue to face the challenge of undergoing repairs while simultaneously housing their own staff and outside employees. As necessary repairs are being made, some hotels are capitalizing on the opportunity to conduct additional renovations. The following chart illustrates the lodging supply status as of November 21, 2005. This status of the hotel inventory is constantly in flux, and expected to remain so until rebuilding is complete.

Hotel Closings, Anticipated Openings, and Renovations

The following charts summarize selected major supply changes.

Hotel Closings in 2005

PROPERTY	LOCATION	UNITS	CLOSING DATE	COMMENTS
New Orleans Fairmont	Downtown/CBD	701	September 2005	Closed due to Hurricane Katrina
New Orleans Inter-Continental	Downtown/CBD	479	September 2005	Closed due to Hurricane Katrina
New Orleans Loews	Downtown/CBD	285	September 2005	Closed due to Hurricane Katrina
Le Pavillon Hotel	French Quarter	226	September 2005	Closed due to Hurricane Katrina
New Orleans Ritz-Carlton	French Quarter	527	September 2005	Closed due to Hurricane Katrina
New Orleans Riverside Hilton	Downtown/CBD	1,572	September 2005	Closed due to Hurricane Katrina
Hyatt Regency New Orleans	Downtown/CBD	1,184	September 2005	Closed due to Hurricane Katrina
New Orleans Marriott	Downtown/CBD	1,290	September 2005	Closed due to Hurricane Katrina
JW Hotel New Orleans Marriott	Downtown/CBD	494	September 2005	Closed due to Hurricane Katrina
Marriott at the Convention Center	Downtown/CBD	331	September 2005	Closed due to Hurricane Katrina
Omni Royal Crescent Hotel	French Quarter	98	September 2005	Closed due to Hurricane Katrina
Renaissance Pere Marquette Hotel	French Quarter	272	September 2005	Closed due to Hurricane Katrina
Renaissance Arts Hotel	Downtown/CBD	217	September 2005	Closed due to Hurricane Katrina

PROPERTY	LOCATION	UNITS	CLOSING DATE	COMMENTS
Sonesta Chateau New Orleans	French Quarter	251	September 2005	Closed due to Hurricane Katrina
Royal Sonesta	French Quarter	483	September 2005	Closed due to Hurricane Katrina
New Orleans Downtown Courtyard	Downtown/CBD	140	September 2005	Closed due to Hurricane Katrina
New Orleans Convention Center Courtyard	Downtown/CBD	202	September 2005	Closed due to Hurricane Katrina
Astor New Orleans Crowne Plaza	Downtown/CBD	707	September 2005	Closed due to Hurricane Katrina
New Orleans Metairie Courtyard	Jefferson Parish/ Airport	153	September 2005	Closed due to Hurricane Katrina
New Orleans Airport Hilton Garden Inn	Jefferson Parish/ Airport	122	September 2005	Closed due to Hurricane Katrina
New Orleans French Quarter Hilton Garden Inn	French Quarter	155	September 2005	Closed due to Hurricane Katrina
New Orleans Metairie Residence Inn	Jefferson Parish/ Airport	120	September 2005	Closed due to Hurricane Katrina
New Orleans Downtown Residence Inn	Downtown/CBD	231	September 2005	Closed due to Hurricane Katrina
New Orleans Convention Center Springhill Suites	Downtown/CBD	208	September 2005	Closed due to Hurricane Katrina
Metairie Wyndham Hotels	Jefferson Parish/ Airport	182	September 2005	Closed due to Hurricane Katrina
Whitney Wyndham Hotels	Downtown/CBD	93	September 2005	Closed due to Hurricane Katrina
New Orleans French Quarter Wyndham Hotels	French Quarter	438	September 2005	Closed due to Hurricane Katrina

PROPERTY	LOCATION	UNITS	CLOSING DATE	COMMENTS
Grand H Bourbon New Orleans Wyndham Hotels	French Quarter	218	September 2005	Closed due to Hurricane Katrina
Riverfront	Downtown/CBD	202	September 2005	Closed due to Hurricane Katrina

Political/Economic/Legal Changes

The future of New Orleans depends on how quickly the city rebuilds, the availability of funds for restoring the infrastructure, and the overall pace of economic recovery, which is largely dependent on tourism and businesses returning to the city. In October 2005, Mayor C. Ray Negin promised that $10 billion would be spent annually for the next 10 years to rebuild the city, and made an impassioned request for a 50% federal and state tax credit on an annual basis for all local businesses. The mayor also encouraged the banking community to loan money to businesses. However, there is still much uncertainty regarding the availability of housing and the long-term impact of the hurricane on property values, construction costs and the real estate market in the city. The federal and state governments are expected to play a major, direct role in the financing of businesses, home mortgages and rebuilding, and critical infrastructure components, such as the rebuilding of levees.

regions and markets

orlando

ORLANDO

Introduction

In 2006, Orlando is anticipated to continue to experience stable lodging demand growth in step with 2005. Orlando was fortunate to have fewer hurricane interruptions in 2005 relative to the prior year, while several hotel closures in 2005, mostly among limited service properties, helped the sector improve its occupancy performance.

Based on data provided by Smith Travel Research, the Orlando lodging market experienced a slight demand decrease through November 2005, partially a result of a 1.9% decrease in available supply (due to several Economy and Independent hotel closings) and influenced by an active Florida hurricane season and rising gas prices. It is estimated that occupancy will increase to 71.3% for 2005, a 0.6 percentage-point increase versus 2004. ADR is anticipated to increase by approximately 5.3% to $92, yielding a 6.2% increase in RevPAR to $66 in 2005.

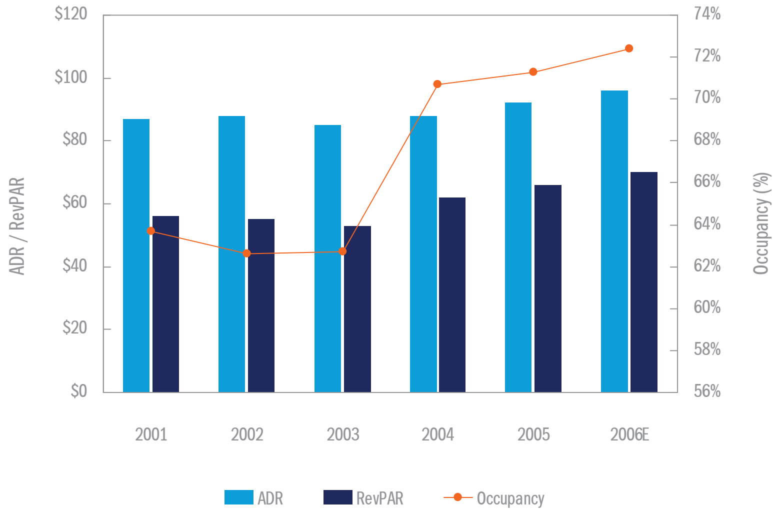
In 2006, occupancy is anticipated to increase 1.1 percentage points to 72.4% from an anticipated increase of 2.5% in room demand. ADR is anticipated to increase 4.3% to $96, resulting in an aggregate increase of 6.0% in RevPAR to $70. Discussions with market representatives support the expectation that anticipated increases in RevPAR will be driven by ADR growth.

Market Strengths

The lodging market is benefiting from local government's efforts to diversify Orlando's economic base, which, at present, relies significantly on tourism. The initiatives should continue to fuel the area's corporate base and generate business and convention demand. Improving economies in Latin America, the strength of the Euro relative to the dollar, and overseas marketing efforts by the Orlando Convention and Visitors Bureau should further contribute to international demand. According to Global Insight, international visitation is anticipated to grow by 6.7% in 2005 relative to 2004, and should further increase a minimum of 3.4% per year over the next three years.

Lodging Market Occupancy, ADR, RevPAR Performance

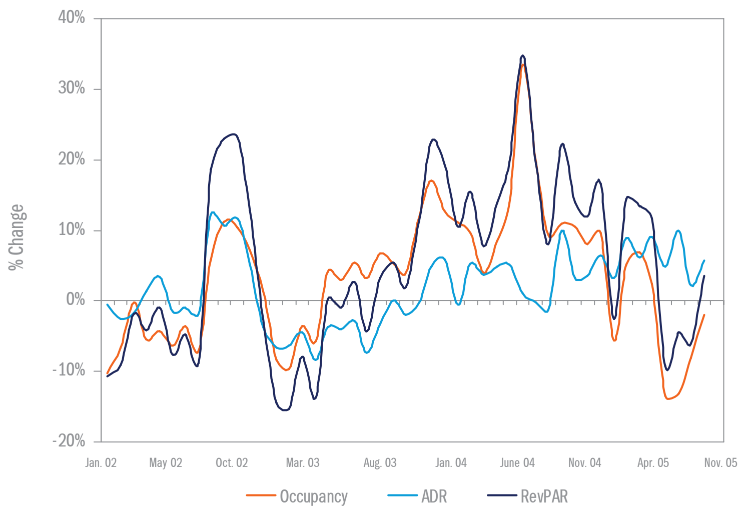
ORLANDO



Source: Smith Travel Research

Lodging Market Change in Monthly Occupancy, ADR, RevPAR Performance

ORLANDO



Source: Smith Travel Research

Market Challenges

Over 73% of domestic visitors, or approximately 33 million people, arrived in Orlando by car or bus in 2004 according to Orlando CVB estimates. As a result, Orlando is particularly susceptible to increases in gasoline prices. In addition, according to the Department of Atmospheric Sciences at Colorado State University, the Orlando market may be further challenged by inclement weather as active hurricane seasons are anticipated in the region. The completion of several condominium-hotel developments may apply additional pressure to occupancies and average rates in 2006. These developments are anticipated to become more competitive in the market in 2007 and beyond, as more properties open, including several with national lodging brand affiliations.

Demand Changes

The Orlando International Airport surpassed the Miami International Airport to become Florida's busiest airport in 2004 with over 31 million passengers. Year-to-date through September 2005 total passenger traffic has increased 9.7% over the corresponding period in 2004 to approximately 25.7 million passengers. It is anticipated that passenger traffic will continue to increase at approximately 6% per year for the next few years.

The Orange County Convention Center (OCCC) has seen attendance through November increase 2.7% over the corresponding period in 2004 and an increase of 28 events during the same period. This occurrence is driven primarily by the recent convention center expansion allowing for greater attendances and additional conventions. The addition of smaller conference and convention facilities in Orlando is anticipated to enable the newly expanded convention center to avoid blocking dates for small- to mid-sized conventions.

The largest demand generator in Orlando continues to be theme parks. Orlando has 7 of the 10 most-visited theme parks in North America according to 2004 attendance figures. These theme parks recorded a combined attendance of 59.3 million visitors in 2004, a 6.5% increase from 2003. It is anticipated that attendance figures for 2005 will be similar to 2004 with no significant increases in attendance. Factors that affected attendance for 2005 include the threat of hurricanes and the high cost of gasoline. These factors are anticipated to continue to play a role in Orlando theme park attendance into the future.

Domestic visitation to Orlando is anticipated to increase by approximately 3.2% in 2006 while international visitor volume should grow by 6.3% relative to the prior year. The increase in visitation is anticipated to generate a total increase of approximately 2.5% in room demand for 2006, to about 29.5 million room nights.

Supply Changes

The development of condominium-hotels in the Orlando market is anticipated to place negative pressure on occupancy in the mid-term. The actual number of rooms that will be added to the market is difficult to assess, as the majority of projects are being developed in several phases with timing tied to the strength of the second-home vacation real estate market. In addition, uncertainty remains regarding rental program participation by unit owners and the structure of rental program contracts. However, it is anticipated that condominium-hotels will be competitive with their lodging counterparts and may experience similar absorption patterns to new hotels. The expansion of the Orange County Convention Center has, according to the CVB, increased the need for additional room supply near the Convention Center. The completion of the 1,500-room Rosen Shingle Creek, anticipated for 2006, may alleviate some of the supply constraints. Additional International Drive developments, including several condominium-hotel developments, are anticipated to further support the expansion of the Convention Center.

Hotel Closings, Anticipated Openings, and Renovations

The following charts summarize selected major supply changes.

Hotel Closings in 2005

PROPERTY	LOCATION	UNITS	CLOSING DATE	COMMENTS
Kissimmee Maingate, Americas Best Value Inn	Kissimmee	281	January 2005	
Orlando Airport Inn	Orlando	354	April 2005	
Days Inn Lakeside	International Drive	695	May 2005	Land is to be redeveloped for residential and retail developments.
Days Inn Maingate West	Kissimmee	333	May 2005	
Days Inn Orlando Airport	Orlando International Airport	260	May 2005	
Hotel Orlando North	Maitland	394	August 2005	
Howard Johnson Express	Orlando	96	September 2005	

Major Renovations in 2006

PROPERTY	LOCATION	UNITS	SCHEDULED RENOVATION DATE	OWNER
Sheraton Safari Hotel and Suites	Lake Buena Vista	489	October 2005	MeriStar Hospitality Corp.
The Lexington (former Holiday Inn Downtown)	Metro Orlando	228	March 2006	Condominium-Hotel (Orlando CityPlace LLC., developer)
Orlando North Hotel	Maitland, FL	394	2006	AMC Delancey Group, Inc. and Paramount Hotel Group, LLC

Planned Additions

PROPERTY	LOCATION	UNITS	SCHEDULED OPENING DATE	DEVELOPER/ OWNER
Lake Buena Vista Resort Village and Spa (Phase 1 and 2)	International Drive	74/332	Late 2005/Late 2006	Lake Buena Vista Resorts
Floridays Orlando Resort (Buildings B, C, and D)	International Drive	216	Early 2006	Floridays Orlando
Sonesta Tierra del Sol (Phase I)	Kissimmee East	430	October 2006	American Leisure Real Estate
Rosen's Shingle Creek Resort	International Drive	1,500	Late 2006	Rosen Hotels & Resorts
Regent Winter Park Resort & Spa	Orlando North	158	Late 2007	Langford Development, LLC
Solis Resort and Spa Orlando	International Drive	300	Early 2008	West Paces Hotel Group, LLC
Village of Imagine (Westin)	International Drive	456	Early 2008	Intrawest

Major Transactions in 2005

Several transactions occurred in Orlando during 2005, which may signal a renewed investor interest in the central Florida region. Some notable transactions included the purchase of the 150-unit Doubletree Resort Orlando – Villas at Maingate. The property was acquired in September by SRV Associates LLC from Villas of St. Paul, Inc. for $12 million ($80,000 per room), and was renamed Saratoga Resort Villas. It is planned to become a condominium-hotel after renovations.

The Embassy Suites Lake Buena Vista Resort was purchased by HEI Hospitality LLC from Strategic Hotel Capital Inc. in September for $56.4 million ($169,000 per room). Ashford Hospitality Trust continued to invest in Orlando in 2005 with the purchase of two Residence Inn hotels in June from CNL Hotels & Resorts. The first Residence Inn, with 350 guestrooms, was sold for $42.2 million ($120,500 per room). The second property, with 176 guestrooms, was purchased for $17.3 million ($98,000 per room). In November, DiamondRock Hospitality Company purchased the 486-unit Orlando Airport Marriott for $70 million ($144,000 per room) from the Teachers Retirement System of the State of Illinois. Also in November, Ashford Hospitality Trust sold the Residence Inn Orlando – International Drive to Schuvkill LLC for $16,793,216 ($95,416 per room), as part of a eight property portfolio sale to be completed in January 2006.

Political/Economic/Legal Changes

Orlando continues to be one of the largest hotel markets and leisure destinations in the United States and its economy is substantially driven by the tourism industry as over 100,000 residents of Orange County work in lodging, food service, or arts and entertainment industries. Actions by area government to diversify the local economy appear to be effective as there has been growth in non-tourism industries. Several downtown developments including office space are planned or under construction and the airport has seen growth in the number of flight simulations and training facilities. Further diversification continues as proposed revitalization projects the downtown area may help to further draw visitors to Orlando, as well as enhance the community as a place to live.

regions and markets

phoenix

PHOENIX

Introduction

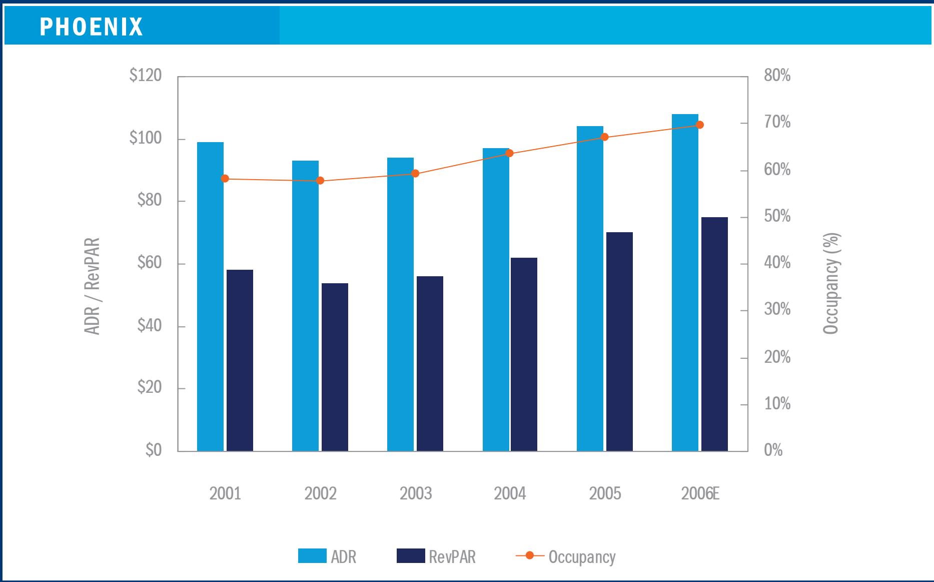
In contrast to the more gradual national economic recovery, the Greater Phoenix market experienced substantial growth in 2004. The Greater Phoenix Area has been able to maintain its resiliency due to continued growth among the high technology and financial service industries. The strong economic expansion has fueled strong positive growth in occupancy and rates. Overall, the Valley experienced a 3.6 percentage-point increase in occupancy, a 12.2% increase in room revenue and 12.9% increase in RevPAR through November of 2005 compared to the same time period last year.

In 2005, the overall Phoenix market experienced occupancy, ADR, and RevPAR figures that exceeded pre-9/11 levels for the first time.

The development of two new sports facilities and the commencement of the Phoenix Civic Plaza expansion which includes construction of a 1,000-room Sheraton Hotel are planned to boost Phoenix's tourism industry. In addition, the Valley's ability to maintain and bring in new venues is anticipated to boost tourism. New events in the Valley include the second annual Rock-N-Roll Marathon, an additional NASCAR race per year, as well the 2008 Super Bowl and a future NHL All-Star game. Maintaining current major events such as Major League spring training, college bowl games, Rock-N-Roll Museum, and the Phoenix Open will also contribute to showcasing the area as a destination and help bring it into the international spotlight.

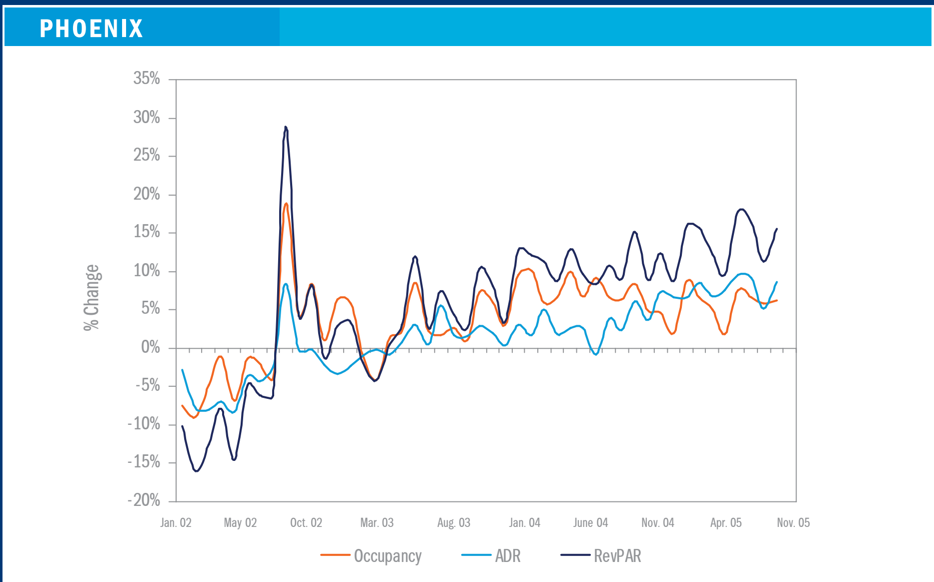
It is anticipated that 2006 will bring an 8.2% increase in RevPAR relative to the prior year, resulting from a 4.0% increase in ADR to $108 and an increase of 2.6 percentage points in occupancy to 69.6%.

Lodging Market Occupancy, ADR, RevPAR Performance



Source: Smith Travel Research

Lodging Market Change in Monthly Occupancy, ADR, RevPAR Performance



Source: Smith Travel Research

Market Strengths

Phoenix continues to attract visitors because of its mild winter climate, world renowned resorts, and abundance of golf courses. The $600 million expansion of the Phoenix Convention Center, which will triple its size to 900,000 square feet of rentable space, as well as the proposed $1 billion downtown Arizona State University Campus (not including medical and pharmacy schools), are anticipated to further stimulate demand. The opening of several upscale resorts and boutique properties in recent years has expanded the tourism base and increased market rates. The Phoenix market has become one of the largest destination resort markets in the United States.

Market Challenges

Although the Phoenix market as a whole is strong, the Downtown Phoenix submarket lacks an "urban core." The downtown area is lacking residential units, retail establishments, and hotel rooms. However, with the revitalization currently underway, these weaknesses should be significantly improved by 2008. In particular, the addition of convention space and two new hotels (including residential and retail components), show the downtown market should become a viable destination. Spiraling land prices are also an obstacle the market will have to address for future development.

Demand Changes

The Phoenix area has led the nation in an economic recovery as office, retail, and industrial markets have maintained strong growth on the coattails of a hot residential market and expansion of the tourism and business service industries. Arizona has boasted strong employment and population growth over the past year and the Downtown Phoenix area has numerous projects underway that will expand and revitalize the area.

Arizona created 72,000 new jobs from September 2004 to September 2005, a 4.0% increase from the previous year. For the 11th consecutive year, Arizona has experienced the second largest percentage growth in employment. The population grew 3.0% from September 2004 to September 2005. Retail sales growth is forecast at an impressive 8.4% for 2005. In 2005, building permits totaled 84,412 units. As the Phoenix metropolitan area continues to grow, the 20-mile light rail transit project will connect Phoenix and the east Valley. The light rail will cost approximately $1.3 billion and is scheduled to open in December 2008.

Downtown Phoenix currently has multiple large developments underway. The Translational Genomics Research Institute (TGen) and the International Genomics Consortium (IGC) had the grand opening for their worldwide headquarters in Downtown Phoenix in early 2005. The 170,000 square-foot research facility which cost $46.0 million is the cornerstone of the planned Phoenix Biomedical Center campus. The University of Arizona Downtown Phoenix Medical School is expected to open in fall 2006 with 24 students and will eventually expand to 150 students. A cancer treatment hospital and a pharmacy school may be built as a part of the medical school.

The Arizona State University main campus, the largest campus in the nation with approximately 55,000 students, announced plans to expand its downtown campus in August 2006 and increase the downtown campus student population to 15,000 students by 2015. The campus will stretch over 20 acres of prime downtown real estate and will cost approximately $1 billion. The first phase will open with 3,000 students in the College of Public Programs, College of Nursing, and University College. Phase two will open in fall 2008, which will include the Walter Cronkite School of Journalism, new student housing, a student union, and approximately 5,000 more students.

The $600 million expansion of The Phoenix Civic Plaza will almost triple its size to more than two million square feet and add 570,000 square feet of meeting and exhibition space. The first phase will be ready for conventions in May 2006 and the second phase will follow in early 2009. According to the city of Phoenix, the expansion will create 1,500 jobs during the five-year construction period and attract 370,000 people annually to the area upon completion. A 1,000-room city-owned Sheraton hotel will be located next to the convention center.

There is a potential new museum and two performing art-center projects underway in the Phoenix metropolitan area. The planned $10 million Downtown Phoenix satellite museum destination for the Cleveland-based Rock-and-Roll Hall of Fame is in the planning stages and will be built near Alice Cooper's Town in Downtown Phoenix. The 212,775 square foot Mesa Arts Center opened in spring 2005. The center cost $94.5 million and features performing arts, visual arts, and arts education facilities. The $65.7 million Tempe Center for the Arts will open by the end of 2006. The 88,000 square foot arts center will be located on the south bank of Tempe Town Lake and will feature a theatre, studio, meeting room, catering, retail space, a bar, and a 17-acre park.

Arizona was ranked in the top five "Most Popular Travel Destinations for Golfers" according to the National Golf Foundation, with an estimated 205 courses in the Valley and 352 courses statewide. With many of the municipal course fees as high as $250 per round, the state's golf industry accounts for $1 billion annually in economic impact.

Supply Changes

Phoenix experienced moderate hotel growth in 2005. The only major new hotel openings were the 248-room Radisson Fort McDowell and the redeveloped Ramada Valley Ho, both December 2005 openings.

The La Posada Resort, which closed in June 2005, is currently being rebuilt and is scheduled to re-open in 2007 as the Montelucia Resort and Spa, and will include 227 hotel rooms and 34 private residences. The development costs are anticipated to be $200 million.

The Radisson Resort and Spa Scottsdale was purchased by a private developer for redevelopment into a for-sale residential property. Redevelopment of the historic Ramada Valley Ho is scheduled to be finished December 2005. Another highly anticipated addition to the luxury market is the W Hotel in Downtown Scottsdale, with an October 2007 opening. The hotel will include a hotel and residential component. In mid-2005, Marriott International bought a 120-acre prime piece of land from Sinclair Oil Corp, located in Paradise Valley and Scottsdale, and is planning a Ritz-Carlton resort.

Two major downtown Phoenix hotel projects are in the works, as the city prepares for the Civic Center expansion, Arizona State University campus, and a downtown medical school. A Sheraton Hotel boasting 1,000 rooms and a 190-room W Hotel with an additional 190 residences, are both scheduled to open in 2008.

Hotel Closings, Anticipated Openings and Renovations

The following charts summarize selected major supply changes.

Hotel Closings in 2005

PROPERTY	LOCATION	UNITS	CLOSING DATE	COMMENTS
The Radisson Resort and Spa Scottsdale	Scottsdale	313	April 2005	Closed permanently – site of residential development
La Posada	Paradise Valley	258	June 2005	Site of new Montelucia Resort and Spa scheduled to open in 2007
Marriott Mountain Shadows Resort & Golf Course	Scottsdale	305	Formal proposal submitted in November 2005	Closed, being torn down, and redeveloped

Planned Additions

PROPERTY	LOCATION	UNITS	SCHEDULED OPENING DATE	DEVELOPER/OWNER
Cibola Vista Resort & Spa	Peoria	100	May 2007	Princeton Resorts Group LLC
W Hotel & Residences Scottsdale	Scottsdale	225	October 2007	Triyar Hospitality LLC
Montelucia Resort & Spa	Scottsdale	227	3rd Quarter 2007	Crown Realty & Development Corp.
Renaissance Hotel @ Westgate City Center	Glendale	320	3rd Quarter 2007	John Q. Hammons Hotels Inc.
W Hotel & Residences	Phoenix	190	February 2008	Suns Legacy Hotel Investors, LP
Verrado Resort	Buckeye	800 – 900	3rd Quarter 2008	Intrawest
Sheraton Hotel Phoenix Convention Center	Phoenix	1000	October 2008	The city of Phoenix
Ritz-Carlton	Paradise Valley	300	NAV	Marriott International, Inc.
Former Marriott Mountain Shadows Resort & Golf Course	Paradise Valley	250 – 300	NAV	Crown Realty & Development Corp.

Major Transactions in 2005

Seven significant hotel transactions occurred in 2005. The 270-room Embassy Suites in Paradise Valley was purchased by EHP Phoenix Suites, LLC from UP Stonecreek, Inc. in February 2005 for $33 million ($122,222 per room). In April 2005, Anaheim Coachman Inn, LLC purchased the 247-room Holiday Inn in Mesa from Thousand Oaks Inn, Inc. for $12.3 million ($49,858 per room). In June 2005, RLJ Phoenix Suites Hotel, LLC purchased the 226-room Hilton Suites in Phoenix from Hilton Suites, Inc. for $31.0 million ($137,168 per room), and the 171-room Renaissance Scottsdale Resort was sold to WSRH Scottsdale Cottonwoods, LLC from CTF Scottsdale Resort, LLC for $12.0 million ($70,175 per room). Additionally, the 204-room Caleo Resort and Spa was sold to The Kimpton Fund for an undisclosed price and the Resort Suites of Scottsdale was sold to Global Real Estate, LP for an undisclosed price. As part of a portfolio disposition in July 2005, GE Asset Management sold the 387-room DoubleTree in Paradise Valley to The Procaccianti Group for $41.1 million ($106,078 per room). The Radisson, La Posada, and Mountain Shadows properties were also acquired, for their land values only.

Political/Economic/Legal Changes

The Phoenix economy is built on growth and, consequently, growth is generally a favored activity in most sub-markets. The economy continues to create jobs and the community is investing in infrastructure and educational expansions, all of which leads to a continuing positive outlook for the Phoenix lodging market.

regions and markets

san diego

SAN DIEGO

Introduction

San Diego continues to rank as the top-performing lodging market in California and one of the top-performing lodging markets in the United States in terms of RevPAR. The supply and demand fundamentals will be in balance in 2006, but in 2007, due to significant supply additions, the market's overall performance may be challenged.

The San Diego International Airport experienced an increase of 6.4% in the number of passengers year-to-date through September 2005 versus the same period in 2004. Visitor spending is anticipated to reach $5.9 billion by year-end 2005, representing a 4.9% increase over the previous year. San Diego experienced healthy lodging fundamentals in 2005, as RevPAR increased 9.3% year-to-date through November 2005, primarily due to significant increases in ADR of 7.4%, from $115 to $123.

San Diego is anticipated to continue to experience healthy lodging fundamentals for the remainder of 2005. For year-end 2005, occupancy is anticipated to increase 1.4 percentage points to 72.3% versus 2004, while ADR is anticipated to increase approximately 7.0% to $122, resulting in a RevPAR increase of 9.1%, from $81 in 2004 to $88 estimated for year-end 2005.

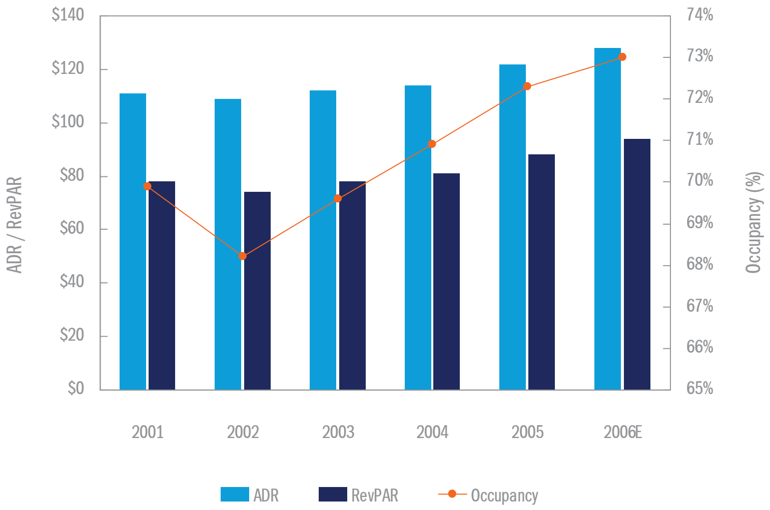
In 2006, San Diego's occupancy is anticipated to increase to 73.0%, while ADR is anticipated to increase approximately 5.0%, from $122 to $128. This is anticipated to result in a RevPAR increase of 6.0% versus 2005, from $88 to $94.

Market Strengths

In 2006, the San Diego lodging industry is anticipated to continue to benefit from a strong convention market as well as the strong cruise, biotechnology, and defense sectors. As convention center demand is anticipated to increase approximately 10.1% by 2007 compared to 2005, additional proposals for a convention center hotel are underway. Furthermore, with the anticipated expansion of the San Diego Port and expansions of Genentech and Northrup Grumman, lodging demand is anticipated to increase in the coming years.

Lodging Market Occupancy, ADR, RevPAR Performance

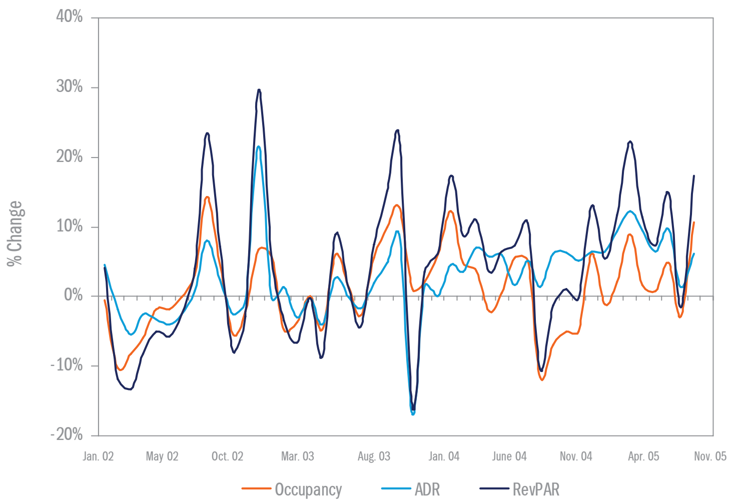
SAN DIEGO



Source: Smith Travel Research

Lodging Market Change in Monthly Occupancy, ADR, RevPAR Performance

SAN DIEGO



Source: Smith Travel Research

Market Challenges

The primary challenges for San Diego's lodging market in 2006 and beyond are anticipated to be the increasing challenge to maintain hotel occupancy as new supply continues to be developed, airport capacity issues, and continued state and city budget cuts and the subsequent effect on travel to the San Diego area.

Demand Changes

The San Diego lodging market continues to benefit from the growth of the biotechnology and defense industries. San Diego was recently ranked as the fastest-growing biotechnology center in the United States, with approximately $5.8 billion in annual income. Genentech's purchase of Biogen Idec's Oceanside drug facility in June 2005 and the expansion Gen-Probe's headquarters in San Diego are anticipated to facilitate the continued growth of the industry throughout the area. Additionally, the defense industry continues to expand in San Diego, following an increase in federal spending on defense and homeland security. In July 2005, Northrup Grumman opened a new 234,000 square-foot campus located on Spectrum Center Boulevard. The five-story building is anticipated to house approximately 850 employees and accommodate the company's anticipated growth.

The cruise industry continues to expand in California and San Diego. The industry generated approximately $400 million for San Diego County's economy in 2004, nearly double the amount from 2003. San Diego Port officials anticipate one million cruise passengers annually to pass through the San Diego Port by 2010, with an economic impact of approximately $1 billion. The Port has preliminary plans to construct a second passenger loading bridge to accommodate increasing passenger traffic and to overhaul the Port by 2010 at an estimated cost of approximately $20 million.

In November 2005, the San Diego Port Commission entered into an exclusive negotiation with Gaylord Entertainment for development of a resort and convention center facility on the Chula Vista bay front. The $600 million convention complex is anticipated to include a 1,500- to 2,000-room hotel with a 400,000 square-foot meeting area. If approved, the 43-acre project will likely serve as an anchor and catalyst for future development on the 550-acre site, generating a significant number of new jobs and a significant amount of additional room-tax revenue for the city. However, worries exist that the new Gaylord facility may capture demand from the current San Diego Convention Center (SDCC), which has 525,000 square feet of exhibit space and 200,000 square feet of meeting space. The SDCC generated an estimated 626,000 room nights in 2005 and is anticipated to generate approximately 650,000 room nights in 2006.

Downtown San Diego continues to undergo a revitalization fueled primarily by the development of new large-scale mixed-use developments, including:

- The $45 million DiamondView Tower mixed-use project, featuring approximately 232,000 square feet of office space and 74,000 square feet of retail and restaurant space. Construction began in February 2005 and completion is anticipated for late 2006.
- The $140 million Broadway 655, featuring approximately 356,000 square feet of office space, 16,300 square feet of restaurant and retail space, and a four-story residential complex. The development opened in September 2005.
- Phase two (of three) of the expansion of Gaslamp City Square. The $20.6 million mixed-use project, which is anticipated to open in 2006, is anticipated to feature 88 condominium units, 25,000 square feet of retail, and 250 parking spaces.

The San Diego Chargers recently proposed a $450 million development at the site of the 166-acre Qualcomm Stadium in Mission Valley. The project is anticipated to include a larger stadium, approximately 6,000 residential units, office and retail space, a hotel, and a park. The proposal is anticipated to be part of the November 2006 ballot.

Supply Changes

ADR increased in 2005 due to an addition of rooms to the supply at higher average rates of approximately 2.0% year-to-date as of September 2005, compared to the same period in 2004. It is anticipated that supply growth will slow in the fourth quarter of 2005 and in 2006 as the market experiences a marginal lodging supply increase of approximately 0.2%, with the Hard Rock Hotel in North County contributing the most significant addition with 417 guestrooms. Several large-scale hotel developments remain in the pipeline, including the 1,200-room Hilton San Diego Convention Center, a proposed 1,500- to 2,000-room hotel to be developed by Gaylord Entertainment in Chula Vista, and a potential 1,310-room convention center hotel in Oceanside. Full-service hotels are anticipated to gain momentum in 2006 and thereafter, particularly in healthy submarkets such as La Jolla, Mission Valley, Carlsbad, and Oceanside. By 2010, the supply of full-service guestrooms is anticipated to experience a 17.0% increase compared to 2005, to approximately 40,650 rooms, while limited-service guestrooms are anticipated to experience a 5.4% increase, to approximately 20,100 rooms.

Hotel Closings, Anticipated Openings, and Renovations

The following charts summarize selected major supply changes.

Hotel Closings in 2005

PROPERTY	LOCATION	UNITS	CLOSING DATE	COMMENTS
U.S. Grant Historic Hotel	San Diego	284	February 2005	Undergoing a complete renovation and reopening as a Luxury Collection by Starwood in early 2006
Andrea Villa Inn	La Jolla	49	March 2005	NAV

Major Renovations in 2006

PROPERTY	LOCATION	UNITS	SCHEDULED RENOVATION DATE	OWNER
Hotel Del Coronado (addition)	Coronado	205	December 2005	Strategic Hotel Capital Inc., Kohlberg Kravis Roberts & Co., and KSL Resorts
Grant Hotel	Gaslamp District	284	Early 2006	U.S. Grant Hotel Ventures, LLC
Town and Country Resort	Mission Valley	966	Fall 2006	NAV

Planned Additions

PROPERTY	LOCATION	UNITS	SCHEDULED OPENING DATE	DEVELOPER/OWNER
West Inn and Suites	Carlsbad	86	March 2006	J A Buza Corporation
Unnamed	San Diego	160	June 2006	NAV
Westin	La Jolla	327	June 2006	NAV
Marriott Hotel Conference	Escondido	198	September 2006	city of Escondido
Hard Rock Hotel	San Diego	417	November 2006	Tarsadia Hotel Inc.
Hard Rock Hotel San Diego	San Diego	248	Early 2007	Tarsadia Hotel Inc.
Diegan Hotel / House of Blues	San Diego	190	Early 2007	5th Avenue Partners & Diegan LLC

PROPERTY	LOCATION	UNITS	SCHEDULED OPENING DATE	DEVELOPER/OWNER
Renaissance Hotel Gaslamp Quarter	San Diego	344	June 2007	5th Avenue & J LLC
Hilton San Diego Convention Center Hotel	San Diego	1,200	Late 2007	Hilton San Diego Convention Center LLC
Spinnaker Hotel	San Diego	250	December 2007	5th Avenue Landing LLC
InterContinental San Diego	San Diego	450	Mid-2008	Isis Hotels
Chula Vista Bayfront Hotel & Conference Center	Chula Vista	1,500 – 2,000	2009	Gaylord Entertainment

Major Transactions in 2005

In 2005, San Diego County experienced a number of significant hotel transactions, the most notable being the sale of CNL Hospitality's 45% interest in the 679-room Hotel Del Coronado. The hotel sold for approximately $745 million ($1,097,201 per room) in November 2005. Strategic Hotel Capital will acquire CNL's interest in the resort, with the remaining interest split between the prior owners, Kohlberg Kravis Roberts & Company (41% interest) and KSL Resorts (14% interest).

Other significant transactions in 2005 include the purchase of the 282-room Hilton Gaslamp Quarter by LaSalle Hotel Properties from S.O. Bridgeworks, LLC for $85 million ($301,418 per room) in January. In March, HEI Hospitality Fund Acquisition, LLC purchased the 351-room Hilton Mission Valley from MV Partners for $45.5 million ($129,630 per room). Fairfield Resorts Incorporated purchased the 59-suite Prava Hotel & Spa from Harbour Lights Hotel Ventures LLC for an undisclosed priced in June, and in mid-2005, KAREC California Development Program LLC purchased the leasehold interest in the Hyatt Regency Islandia Hotel & Marina from Islandia Associates Limited for an undisclosed price. Additionally, the 221-room Doubletree San Diego Hotel was purchased as part of a portfolio by Pyramid Hotel Opportunity Venture LLC from CNL Hospitality Properties Incorporated for a portfolio average of approximately $25 million ($113,423 per room) in September 2005.

In October, the Wyndham Emerald Plaza was purchased by Columbia Sussex Corporation from Wyndham International Incorporated (a subsidiary of The Blackstone Group) for approximately $105 million ($240,756 per room). In October, the 436-room Wyndham Emerald Plaza was sold by Wyndham International to Columbia Sussex Corp for $104.97 million (240,757 per room).In November, Boykin San Diego, LLC sold the San Diego Hampton Inn for $23 million. Finally in November, the 1,044-room Sheraton San Diego Hotel & Marina, were included in Host Marriott Corporation's acquisition of 38 hotels from Starwood Hotels & Resorts. The portfolio consists of approximately 18,964 rooms and sold for $4.04 billion.

Political/Economic/Legal Changes

San Diego's economy is anticipated to gain momentum into 2006 and beyond. The county's unemployment rate is anticipated to average 3.7% in 2005, improving from the 2004 average of 4.7%. By year-end 2005, the county is anticipated to experience an increase of approximately 21,900 in the number of jobs versus 2004, with the tourism and hospitality sector contributing the third largest increase, at approximately 3,600 jobs. Per capita personal income is anticipated to reach approximately $38,980, representing an increase of 5.5% versus 2004. Furthermore, the two-way international trade industry at the San Diego Customs District is anticipated to increase by 13.9% in 2005, reaching a record level at $45.1 billion. Additionally, San Diego County supervisors are anticipated to reduce hotel tax rates from 9.0% to 8.0% in 2006. The city of San Diego has decreased the 2005-2006 fiscal year budget for the San Diego Convention and Visitors Bureau to $11.5 million, from $12.5 million for the 2004-2005 fiscal year.

On July 15, 2005, the mayor of San Diego resigned due to continual questioning concerning San Diego's approximately $1.37 billion pension fund deficit, which is largely the result of decisions in 1996 and 2002 to avoid payments to the retirement fund and to enhance benefits.

regions and markets

san francisco

SAN FRANCISCO

Introduction

In 2005, the San Francisco Bay Area demonstrated significant signs of recovery. The city experienced an overall increase in both ADR and occupancy levels throughout the year. With the ongoing recovery of the technology industry, the anticipated increase in convention business by the San Francisco Convention and Visitors Bureau, and the continued development of new luxury lodging properties, lodging fundamentals are anticipated to improve for the Bay Area in 2006. In addition, economic growth for the region is anticipated to continue with an estimated 1.3% increase in employment in the San Francisco area throughout the next five years.

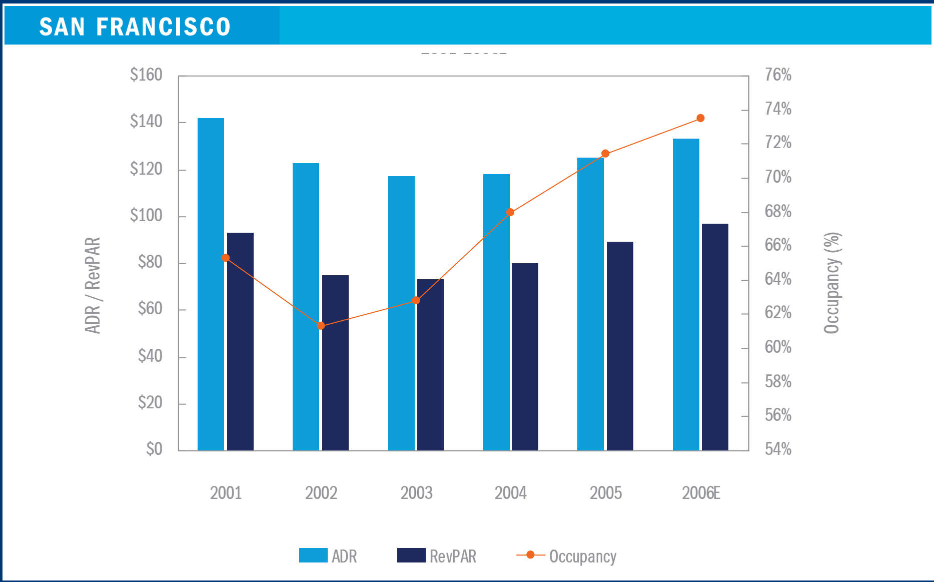
Based on November year-to-date data provided by Smith Travel Research, occupancy levels for 2005 are anticipated to reach 71.4%, representing an increase of 3.4 percentage points versus the previous year, while ADR is anticipated to increase 6.0%, from \$118 to \$125, resulting in an increase in a RevPAR of 11.4%, from \$80 to \$89, in comparison to 2004.

Occupancy is anticipated to increase in 2006 to 73.5%, while ADR is anticipated to increase 6.0% from \$125 to \$133, resulting in a RevPAR increase of 9.2% to \$97, surpassing 2001 levels.

Market Strengths

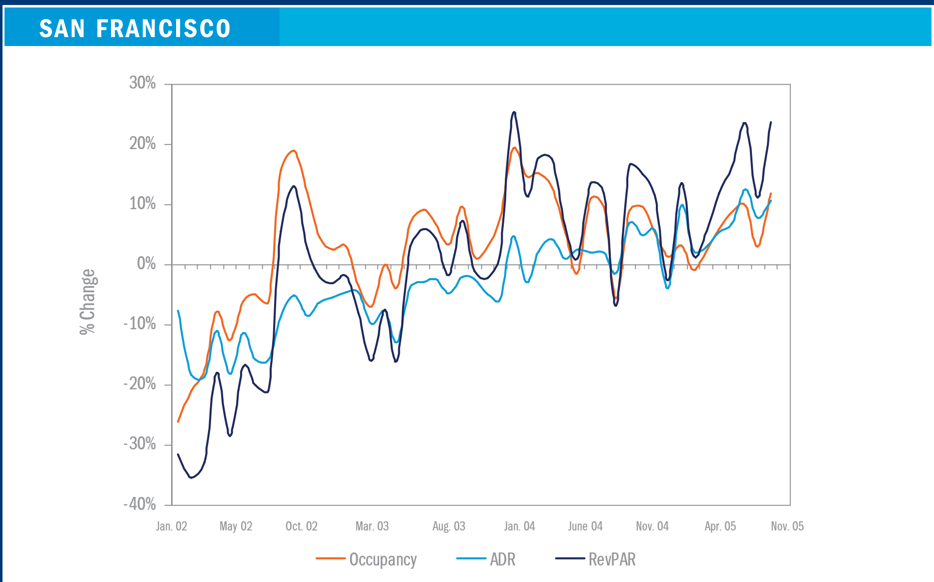
The continued efforts of the San Francisco Convention and Visitors Bureau to promote the area, combined with the continued development and addition of new lodging properties, are anticipated to benefit San Francisco in attracting both convention and leisure travelers to the region. The weakened dollar has resulted in an increase in overseas travel to San Francisco. In addition, the continued development projects in both airports and sea ports to accommodate the anticipated growth in both domestic and international travel is anticipated to further aid in the growth of the San Francisco market.

Lodging Market Occupancy, ADR, RevPAR Performance



Source: Smith Travel Research

Lodging Market Change in Monthly Occupancy, ADR, RevPAR Performance



Source: Smith Travel Research

Market Challenges

With the industry recovering, the most significant challenges for the San Francisco lodging market are the effects of the labor union strike and the technology industry recovery.

Demand Changes

The San Francisco Convention and Visitors Bureau launched a new marketing and branding campaign titled, “Only in San Francisco” at the end of the second quarter of 2004 in an effort to enhance the city’s tourism industry. By the end of the third quarter of 2005, the results of the efforts were noticeable. The San Francisco Convention and Visitors Bureau had a record fiscal year (2004/2005) with 925 convention groups booked throughout the year, with an estimated total of approximately 5.4 million hotel room nights anticipated during the next 16 years and an estimated economic impact of approximately $1.5 billion. In 2005, the San Francisco Convention and Visitors Bureau is anticipated to increase its meeting and convention bookings by 4% compared to the previous year.

The union strike throughout most of 2005 affected several convention bookings, resulting in last minute cancellations and relocations. The San Francisco Convention and Visitors Bureau estimated a loss to the city of $46.6 million as a result of the strike. However, San Francisco did receive some additional convention business from meetings that were originally scheduled to be held in New Orleans, but were forced to be relocated due to Hurricane Katrina. Despite the loss, the Bay Area’s lodging industry is anticipated to benefit from these relocations throughout 2005 and into 2006.

The San Francisco International Airport’s passenger traffic count increased 2.4% for year-to-date September 2005 versus the same period the previous year. Oakland International Airport and Mineta San Jose International Airport experienced a 3.4% increase and 0.3% decrease, respectively, in passenger traffic for year-to-date August versus the same period the previous year. Earlier this year, the San Francisco Airport Commission approved a five-year, $685 million capital improvement plan, which is anticipated to include upgrades to its runway and facilities to accommodate the operation of the Airbus A380, the world’s largest commercial passenger airplane. The A380 is anticipated to debut at the airport in late 2006 and further promote the San Francisco Bay area as an international travel gateway.

In anticipation of a growing cruise industry, the Port of San Francisco is constructing the International Cruise and Bryant Street Pier Project. Port officials note that the number of ships arriving at the Port has increased 120% and the number of cruise passengers has increased approximately 213% since 2001. The construction, which is anticipated to be completed in late 2006, is estimated to cost $400 million and is anticipated to feature a state-of-the-art international cruise terminal facility along with luxury residential condominiums, office and retail developments and a waterfront park known as Brannan Street Wharf Park.

Signs of economic recovery continue to emerge in the Silicon Valley as entrepreneurs and technology companies move into new lines of business and expand within the area, focusing on technology as well as biotechnology, life sciences, healthcare, and nanotechnology. In August 2005, both Yahoo! and Google announced the relocation of approximately 500 individuals to San Francisco, with the potential to increase that number to approximately 1,000 each, and each are expected to lease approximately 200,000 square feet of office space. Similarly, the biotechnology industry is anticipated to continue to be a significant travel demand generator for the Bay Area. In October 2005, the International BioMed Society held a forum entitled "Biotech in San Francisco: Development Issues and Opportunities," and November marked the opening of the permanent headquarters of the California Institute for Regenerative Medicine. The institute is responsible for disbursing $3 billion in state funds for stem cell research to California universities and research institutions over the next 10 years.

Supply Changes

In 2005, the San Francisco Bay area experienced significant activity, with several new luxury properties opening, entering various stages of development, or being converted into condominiums, a continuing trend. Year-to-date through September 2005, San Francisco had experienced an approximately 1.6% decrease in supply versus the same period the previous year. This decrease, coupled with steady and continued growth in demand and limited lodging supply anticipated to enter the market in 2006, is anticipated to improve lodging fundamentals throughout the area over the next year. According to Smith Travel Research, 1,085 new hotel rooms are in construction in the Bay Area, of which 354 are anticipated to open in 2005 and 181 are anticipated to open in 2006. One of the most anticipated additions to the supply was the 269-room St. Regis Museum Tower, which opened November 1, 2005. Additionally, the Holiday Inn Select Downtown Hotel and Spa, which closed in June 2005 to undergo a $34 million renovation, is anticipated to reopen in January 2006 as the 552-room Hilton San Francisco Financial District.

Hotel Closings, Anticipated Openings, and Renovations

The following charts summarize selected major supply changes.

Hotel Closings in 2005

PROPERTY	LOCATION	UNITS	CLOSING DATE	COMMENTS
Canterbury Hotel	750 Sutter Street	253	February	Possible conversion to time share or condominiums
Allison Hotel	417 Stockton Street	88	March	NAV
Holiday Inn Select Downtown Hotel and Spa	750 Kearny Street	565	June	Underwent a $34 million renovation and will reopen in January as the Hilton San Francisco Financial District

Major Renovations in 2006

PROPERTY	LOCATION	UNITS	SCHEDULED RENOVATION DATE	OWNER
Ghirardelli Square Hotel	900 North Point Street	100	2008	JMA Properties Inc.

Planned Additions

PROPERTY	LOCATION	UNITS	SCHEDULED OPENING DATE	DEVELOPER/OWNER
St. Regis San Francisco	125 3rd Street	269	November 2005	San Francisco Redevelopment Agency
Hampton Inn & Suites	1775 Francisco Boulevard	85	December 2005	NAV
Hilton San Francisco Financial District	750 Kearny Street	552	January 2006	Justice Investors, LLP
Unnamed Hotel at Harbor Village	240 Capistrano Street	95	March 2006	NAV
Orchard Garden Hotel	466 Bush Street	86	June 2006	Pan Pacific Ocean Hotel Inc.
Hotel Soma	Fifth Street & Townsend Street	75	June 2006	NAV
InterContinental Hotel	888 Howard Street	550	September 2007	Continental Development Corporation

Major Transactions in 2005

The San Francisco Bay experienced a significant amount of transaction activity in 2005 in comparison to recent years. The most significant transaction was the sale of both the 1,908-room Hilton San Francisco in July and the 234-room Hilton San Francisco Fisherman's Wharf in September for a combined price of approximately $668 million ($350,000 per room). In addition, the 94-room Hotel Rex was sold for approximately $11 million ($113,000 per room) and the 237-room Beverly Heritage in Milpitas was sold for approximately $27 million ($113,000 per room), both occurring in September 2005. All four of these properties were sold by CNL Hospitality Properties, Incorporated and purchased by Pyramid Hotel Opportunity Venture, LLC.

CNL Hospitality Properties Incorporated also sold the 127-room TownePlace Suites Newark Silicon Valley in June to Stanford Hotel Corporation for approximately $13 million (approximately $105,000 per room).

The 417-room Sir Francis Drake Hotel was also sold in June by Sir Francis Drake Hotel Associates, LP to SFD Partners LLC (a joint venture between Oxford Lodging Advisory & Investment Group, LLC, of San Francisco, and Longwing Real Estate Ventures, LLC) for approximately $65.5 million ($157,074 per room).

The 329-room Hilton Concord was sold to Interstate Hotels & Resorts for $29.1 million ($88,600 per room) and in mid-November the 110-room Campton Place Hotel was sold to the Kor Group for an undisclosed amount.

Political/Economic/Legal Changes

With the growing trend of hotel rooms being converted to condominiums, San Francisco officials have passed an 18-month moratorium, expiring in early 2007, to study the economic impact of such conversions on the city. This legislation affects hotels with 100 or more rooms. The San Francisco lodging industry is slowly recovering from the effects of the union strikes this past year. However, there is still a concern as union contracts in six other cities and Hawaii are up for re-negotiation in late 2006.

regions and markets

washington, d.c.

WASHINGTON, D.C.

Introduction

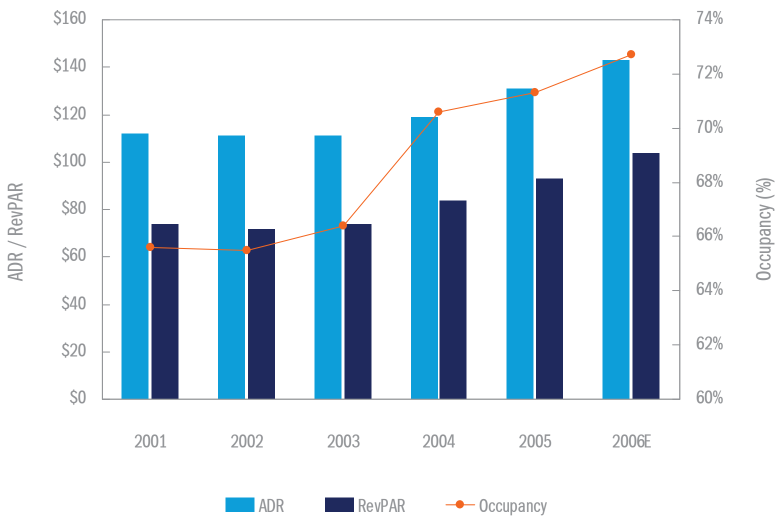
Washington, D.C. continues to rank as one of the top performing lodging markets in terms of RevPAR gains in 2005. ADR performance has surpassed its 1999 level, and overall performance is anticipated to outperform 2000 levels in 2005. The growth in 2005 was partially supported by the increased attendance at the 2.3 million square foot Washington Convention Center and the first official season of the Washington Nationals, the new Washington, D.C.-based Major League baseball team. In addition, the Washington, D.C. area continues to maintain low office-vacancy rates, approximately 7.4% as of year-to-date November 2005, driven by a growing number of government entities and the desire by more international firms to have a presence in the D.C. area. This continued growth of the business environment is anticipated to help drive lodging ADR and occupancy levels in 2006.

In 2005, the Washington, D.C. lodging market improved significantly relative to 2004. Based on year-to-date data through November 2005 provided by Smith Travel Research, RevPAR levels are anticipated to increase to $93 for year-end 2005, approximately 11.6% higher than year-end 2004. This RevPAR growth was primarily driven by increases in ADR, which is anticipated to increase by 10.5% to $131, while occupancy is anticipated to increase by 0.7 percentage points to 71.3%, below the peak occupancy level of 73.3% achieved in 2000. Growth in ADR was supported by the high per diem lodging rate in Washington, D.C. of $153. ADR is anticipated to continue to increase going forward as the new 2006 per diem rates became effective on October 1, 2005, which will change according to the following schedule: October 1, 2005 to December 31, 2005 the rate is $166; January 1, 2006 to May 31, 2006 the rate will be $187; June 1, 2006 to August 31, 2006 the rate will be $145; and September 1, 2006 to September 30, 2006 the rate will be $166. This increase to the per diem rate is anticipated to help drive ADR increases and subsequently RevPAR in 2006.

The upward market trend in Washington, D.C. is anticipated to continue into 2006 as the market strengthens its status as a premier leisure destination as well as a developing convention

Lodging Market Occupancy, ADR, RevPAR Performance

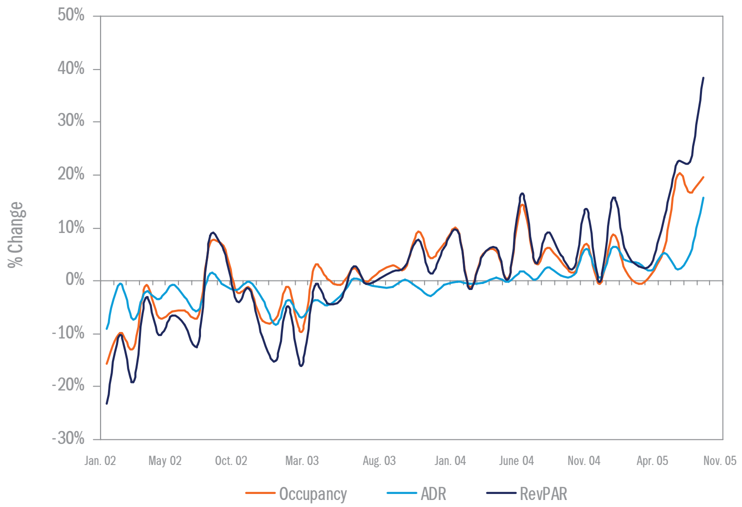
Washington, D.C.



Source: Smith Travel Research

Lodging Market Change in Monthly Occupancy, ADR, RevPAR Performance

Washington, D.C.



Source: Smith Travel Research

destination. Occupancy and ADR growth is anticipated to remain positive, with occupancy increasing 1.4 percentage points to 72.7% and ADR increasing by 9.0% to $143. As a result, RevPAR will increase to $104, which is an 11.2% growth.

Market Strengths

According to a 2005 study by the Travel Industry Association of America, Washington, D.C. continues to thrive as one of the most frequented historic and cultural tourist destinations in the United States for leisure, group, and international travelers, ranking fourth behind New York, Orlando, and Las Vegas. In addition, the employment base is dominated by government and professional services firms, which in conjunction with the proximity to three major international airports results in a consistent flow of corporate business travelers.

Market Challenges

Washington, D.C. remains a high-profile terrorist target, resulting in fluctuations in the lodging market during changes in terror alert levels. Furthermore, the City Council recently proposed an increase in the hotel occupancy tax from 14.5% to 15.5% to be used for modernizing area public schools. This tax increase has been met with mixed feelings by members of the Convention and Tourism Corporation who believe that this could have a negative impact on tourism and conventions.

Demand Changes

The Washington, D.C. area is supported by three major airports: Baltimore/Washington International Airport, Reagan National Airport, and Washington Dulles International Airport. In 2005, Dulles continued its $3.4 billion renovation, including a $63 million new air traffic control tower scheduled to open in 2006 and an additional 9,500-foot runway scheduled to open in 2008. The renovation will also include a 23-mile extension of the Metrorail to downtown Washington, D.C., anticipated to be completed by 2011, which will provide additional transportation for the 28 million passengers currently using the airport every year. In addition, Reagan National Airport reopened to private aviation in October 2005 after four years of restrictions set in place after the September 11, 2001 terrorist attacks.

Washington, D.C. has continued to generate significant lodging demand through the presence of convention facilities and hotels with substantial meeting space. The 2.3 million square-foot Washington Convention Center was in its second full year of operation in 2005, hosting 135 conventions and meetings. These figures are anticipated to increase in 2006 as Washington, D.C. continues to be a premier convention host city and receives the overflow of various New Orleans conventions that were cancelled due to hurricane Katrina. In addition, the board of directors of the Washington Convention Center Authority (WCCA) affirmed in July 2005 the location of a planned Marriott headquarters hotel consisting of approximately 1,220 rooms, 75,000 square feet of meeting space controlled by WCCA, and 100,000 square feet of leaseable meeting and ballroom space, to be located next to the convention center on 9th Street. After nearly six years of planning, Gaylord Entertainment finally broke ground in September 2005 on a $565 million hotel-convention center that will be opening in March 2008 within the Washington, D.C. suburb of Prince George's County, Maryland. The property is located 15 minutes from Reagan National Airport and 45 minutes from Dulles and Baltimore/Washington International Airports.

The return of Major League Baseball with the Washington Nationals proved to be a demand generator for the D.C. area. The team brought approximately 2.7 million fans to RFK Stadium since their first game in April 2005, which exceeded the 2.4 million estimate by 12%. The city and Major League Baseball have approved plans to build a new 41,000-seat stadium near the Anacostia River in Southeast Washington, D.C to be completed sometime in 2008. The stadium will be part of a revitalization effort on the Anacostia waterfront, led by the government-sponsored Anacostia Waterfront Corporation and area developers, in anticipation of the economic impact to be generated by this attractive cultural and leisure destination.

Several significant commercial real estate additions are anticipated for the Washington, D.C. market. One of these, a 286,000-square foot built-to-suit property at 1875 Pennsylvania Avenue, will house the law firm of Wilmer/Hale & Dorr. The second property, being developed by JBG Companies, is a 215,000-square foot office property at 1601 K Street, which was 88% leased as of October 2005. These two properties are anticipated to be absorbed into the existing office market supply of 31.9 million square feet in 2006.

Washington, D.C. remains a center for cultural and historical attractions, which contributes to a thriving tourism market. Domestic and international leisure and group travelers are drawn to the area for its iconic landmarks, including the White House, Washington Monument, Lincoln and Jefferson Memorials, and various other federal buildings. Furthermore, Washington, D.C. is well known as a hub for many cultural/educational outlets, including the Kennedy Center, Smithsonian Institution, National Theatre, and other museums and galleries.

Supply Changes

The hotel market in Washington, D.C. continued to grow in 2005 with the addition of four new properties and a total of 844 rooms. This growth is anticipated to continue during the first quarter of 2006, with the completion of three additional properties. Based on data from Smith Travel Research, this continuous influx of hotels over the last three years is anticipated to subside between the first quarter of 2006 and through 2008. However, it is anticipated that 2,720 rooms will open in 2008, driven by the completion of the Gaylord National Resort and the Marriott Hotel Convention Center.

Hotel Closings, Anticipated Openings, and Renovations

The following charts summarize selected major supply changes.

Major Renovations in 2006

PROPERTY	LOCATION	UNITS	SCHEDULED RENOVATION DATE	OWNER
Park Hyatt	24th & M Streets, NW Washington, D.C.	217	Spring 2006	Hyatt
Hotel Palomar (formerly the Radisson Barcelo)	2121 P Street, NW, Washington, D.C.	335	January 2006	Kimpton Hotels

Planned Additions

PROPERTY	LOCATION	UNITS	SCHEDULED OPENING DATE	DEVELOPER/ OWNER
Embassy Suites Washington, D.C. Convention Center	900 10th Street NW, Washington, D.C.	384	October 2005	Kite Companies
Courtyard by Marriott Gaithersburg	Washingtonian Boulevard, Washington, D.C.	210	January 2006	The Peterson Companies LC
Residence Inn Dulles Airport	45250 Monterey Place, Dulles Va.	151	January 2006	Marriott Corporation
Westin Arlington Gateway Hotel	801 N. Glebe Road, Arlington, Va.	336	February 2006	JBG Companies
Courtyard by Marriott Capital Hill Towers	140 L Street SE, Washington, D.C.	204	March 2006	Hanscomb Associates, Inc.
Hilton Garden Inn Tysons Corner	8301 Boone Boulevard, Vienna, Va.	149	April 2006	Donohoe Development Company
Hotel Palomar Waterview	2 Waterview Place, Rosslyn, Va.	155	August 2007	Kimpton Hotels

PROPERTY	LOCATION	UNITS	SCHEDULED OPENING DATE	DEVELOPER/ OWNER
Gaylord National Resort	Southpoint Drive, Oxon Hill, Md.	1,500	March 2008	Gaylord Entertainment
Marriott Hotel Convention Center	9th Street NW & Massachusetts Avenue, Washington, D.C.	1,220	June 2008	Tishman Urban Development Corporation

Major Transactions in 2005

Several major transactions transpired in the Washington, D.C. area during 2005. The prominent St. Regis Hotel, which opened in 1926, was sold by Starwood Hotels & Resorts Worldwide, Inc. to a joint venture between Brickman Associates and New Valley Corp, but will continue to be managed by Starwood. The 319-room hotel sold for $47 million ($147,300 per room) in August 2005 and is scheduled for a multi-million dollar renovation. The following month, in September 2005, the Hyatt Regency Washington on Capital Hill was sold by Blackstone Real Estate Advisors for $274 million ($328,500 per room) to Host Marriott. This newly renovated property includes 41,000 square feet of meeting space, including an 11,000-square foot ballroom.

The largest hotel in Washington, D.C., the Marriott Wardman Park, also changed hands from Thayer Lodging to a partnership between JBG Companies and the CIM Group. The 1,334-room property sold for $300 million ($224,900 per room) in August 2005 and the new owners are in discussions to undertake a $50 million renovation. Marriott International will continue to operate the property. JBG also acquired the 301-room Sheraton Reston Hotel earlier in May from Rockwood Capital for $57 million ($189,400 per room).

Other notable transactions include the 811-room Renaissance Washington, D.C., sold in June 2005 by Sunstone Hotel Investors, Inc. for $160 million ($197,300 per room) to a partnership between CTF Holdings and a private investor, and the sale by Wyndham International of its 400-room Wyndham Washington, D.C. for $96.3 million ($240,800 per room) to Columbia Sussex Corporation. The 210-room Holiday Inn Downtown was purchased by LaSalle Hotel Properties for $44.6 million ($212,400 per room) and Highland Hospitality has acquired the 144-room Churchhill Hotel for $48.75 million (approximately $338,500 per room). In November, the 263-room Westin Grand and the 152-room Capitol Hill Suites, were included in Host Marriott Corporation's acquisition of 38 hotels from Starwood Hotels and Resorts. The portfolio consists of approximately 18,964 rooms and sold for $4.04 billion.

Political/Economic/Legal Changes

According to the Bureau of Labor statistics, Washington, D.C. currently has an unemployment rate of 5.8%, which is a 2.4% decrease from year-end 2004. This is a positive economic indicator, signaling the lowest unemployment rate since December 2000. This drop in unemployment in 2005 was attributed to the addition of an estimated 58,500 new jobs in the Washington, D.C. area. This employment growth is anticipated to continue over the next four years, rising by an anticipated 1.7% annually. The highly educated workforce, the presence of the federal government, solid population trends, and the development of a local technology hub are all factors that will enable the area to maintain this stable job growth.

Disclaimer

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